financial focus

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ARE WE TURNING THE CORNER YET?

by Bert Whitehead, MBA, JD Franklin, MI

We have finally seen some positive news on the financial front, and many optimists think the stock market has hit the bottom and bounced off its low point. It's pleasant to be able to take a breather from the brutal onslaught of bad news over the past year.

Many ACA advisors have been citing the dangers of being out of the market, even when it is falling. Although it has been stressful psychologically to maintain equity positions over the past year, recent market activity shows the folly once again of trying to time the market.

For the eight bear markets that occurred in the last 50 years, the average gain for the S&P 500 in the year following the stock market low is +36.5%. We're currently in the ninth bear market of the last half century. The S&P 500's close-of-trading low point of this bear market (so far) was 677 on March 9, 2009. Through the end of April, the S&P 500 gained 29% (not counting the impact of reinvested dividends).

As our clients, you pay us to "watch your backs." So without being an outright pessimist, I think we are still in a perilous financial situation. The future of the auto industry is teetering, and the economic reality goes even deeper than that. We are restructuring our national economy to be capable of truly participating in a global economy.

Our prosperity over the past 15 years was based on a worldwide spending spree, fueled by cheap credit and over-leveraged real estate. The current governmental nostrums are designed to spur more spending, but no meaningful programs have yet addressed the banking crisis and the collapse of the real estate market. We see the impact of these issues every day in the "For Sale" and "For Lease" signs in almost every neighborhood and commercial area.

Each of you has a unique situation, so as usual the approach best suited to you depends mostly on what is going on in your own life. If the breadwinner in your family is out of work, or you have kids in college, or you are faced with disability or are retired (or hope to be soon), these circumstances—not the state of the economy—are the key factors in selecting your investment allocation. Although the stock market may look great, don't kick yourself for having missed out on the recent steep increase.

It is also foolhardy to conclude, based on a recent upturn in the markets, that you should now jump in with both feet. We may not hit bottom until 2010, and then it may take a couple of years to fully recover.

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CORRECTION

Due to an editing error, the article "Paying for College: Beyond Student Loans" in the Spring 2009 issue of *Financial Focus* included incorrect information on the taxation of Section 529 plan earnings. The article should have said that withdrawals from 529 plans are not taxable when less than or equal to annual qualified higher education expenses, adjusted for tax-free education assistance and amounts used to figure education credits. *Financial Focus* apologizes to its readers and to author Elizabeth Barrett for its error.

MONEY PITFALLS TO AVOID WHEN GETTING DIVORCED

by Chuck J. Rylant, MBA   Santa Maria, CA

If you are going through a divorce, you may be feeling fear, anger, resentment, distrust, and a range of other emotions. These feelings can wreak havoc on your finances. You will be making major financial decisions that will likely impact you for decades at a time when your emotions are clouding your judgment. Here are six common mistakes to watch out for during a divorce.

1. Choosing the wrong attorney

If you can end the relationship without a legal fight, you will begin your new life with far more money. Legal battles are very expensive. A good attorney can prevent you from making a major financial mistake, but be cautious because it's easy to be taken advantage of during a divorce. There are many ethical attorneys practicing family law, but there certainly are a few that take advantage of people when they are the most vulnerable. Because of the design of our legal system, attorneys may provoke fights between spouses, causing long drawn-out legal battles that can drain your assets. These stressful battles rack up fees that, if prevented, could have been used for retirement, education, or bills. Consult with several attorneys until you find one you are comfortable with and who is interested in resolving the divorce efficiently. More and more lawyers are gaining experience with *collaborative divorce*, where the spouses and all the professionals agree not to litigate. You do not want an attorney that will drag you and your spouse through an unnecessary battle.

2. Leaving debt in your spouse's name

During your marriage you probably obtained credit that was also in your spouse's name. It's very important to pay off or refinance debt so it's only in the name of the spouse who will be obligated to pay the debt. Often one partner takes responsibility for joint debt, which leaves the other at risk of negative credit ratings from late payments. Even if payments are made on time, the other spouse may be anxious about the situation, which can lead to unnecessary stress and arguments.

3. Staying in the house

Divorcing spouses often fight to the end to keep a house. Perhaps we want to maintain some stability in what feels otherwise like an out-of-control situation. The financial reality is that the income that formerly supported your family must now support two households. Keeping a home (especially one that was a stretch before the divorce) spreads the budget even thinner. More often than not, selling the home allows both parties to downsize until they are able to reestablish themselves. Sometimes we must take one step back to take two steps forward. Try not to go too far in loving the house. It can't love you back.

4. Neglecting to consider the tax consequences

Divorce may force you to make the largest financial decisions of your life. You may need to sell or refinance your home. Your retirement accounts may be split or used for other expenses, and you may have alimony and child support obligations that last for years. These transactions can have huge tax ramifications that affect both of you. Don't let taxes completely drive your decisions, but seek professional advice from an accountant or a fee-only financial advisor before you agree to a settlement. Attorneys typically are not expected to analyze the tax aspects of your divorce decisions, so it is up to you to seek additional help. Most likely, the fee you pay these professionals will be more than offset by the savings their advice provides.

5. Ignoring insurance

An often overlooked but critical consideration in divorce is insurance. As soon as your divorce is final, notify all of your insurance providers that you are divorced and no longer living with your spouse. Changes in address can affect your coverage. You may also need to apply for individual health insurance or pay for costly COBRA coverage. Finally, do not forget to change beneficiaries on any life insurance policies and on annuity and retirement accounts like 401(k)s and IRAs. Very often people forget to make necessary changes and mistakenly leave the first spouse as the beneficiary even after a second marriage. But be cautious of making changes during the divorce proceedings because you can violate court orders, so it's always best to seek advice from your attorney first.

6. Trying too hard to win

The final pitfall is the most dangerous and may be the most difficult for you to avoid. Although ending a relationship is tough emotionally, try to separate your feelings from the financial side of the divorce. Do not try to win because there are no winners in a divorce. The harsh reality is that the financial side of the divorce needs to be a business decision. Unfortunately, it doesn't matter who was at fault in the divorce or who is to blame. The more you are able to look at the finances as a business transaction, the smoother it will go and the better off you, your former spouse, and your children will be in the long run.

FINANCIAL STRATEGIES FOR EVERYDAY LIVING

STEPS TO ACHIEVING GREAT GOALS

by Kelly Adams, CFP®, EA Novi, MI

Goal creation and documentation can have an air of fantasy. But however improbable or foreign your goals may seem, putting them on paper can be a very positive and fruitful experience. Writing down your goals will help you focus on exactly what you want to have or to do, which is more effective than a vague wish list in your head. A written record helps you stay on track, giving you a way to measure your future progress.

As you convert your goals from thoughts into words, you engage more of your brain and clarify the instructions you give to your unconscious mind. By merely committing your goals to a written list, you increase your chances of converting them from "hoped for" to "possible."

Once you've written out a goal, break down the end result you want to achieve into smaller and more manageable steps. This moves you even closer to making your goals a reality because instead of tackling one big mountain, you'll be climbing a series of foothills.

If you've never written down your goals before, begin by relaxing and clearing your mind. Appreciate the value of setting a goal: something to strive for, to improve, or to change different areas of your life. Start with a lined piece of paper numbered 1 to 30, and list 30 goals. You may feel stuck after 7 or 8, but push through and keep on writing, really trying for 30. They don't have to be complex. Consider short-term and long-term goals in a variety of categories: financial, family, personal, spiritual, and physical. Don't worry about being realistic at this point; just keep writing.

How do you transform this simple wish list into actual positive changes in your life? Decide on at least one, and up to five goals from your list of 30 to actively pursue in the next year. Choose goals you are excited about. Write each one at the top of a blank piece of paper. Be sure to phrase it so you define the outcome clearly and state it positively (about what you want to do or to have), not negatively (about what you want to avoid).

Visualize attaining your goal, and give yourself a reality check. Ask yourself whether realizing your goal fits into your life and if the cost of achieving it is reasonable for the benefits you'll receive.

Next choose a reasonable date of completion, and identify your first step. You may have to work backward from the outcome you want to find that first step. Then ask yourself, "Is there anything I need to do before I can accomplish this step?" This will help you recognize and remove any roadblocks. List the remaining steps you'll need to take to achieve your goals. Set reasonable yet aggressive target dates to complete each step of the process.

Most importantly, get started and have fun. Enjoy setting and achieving your goals and completing each step along the path of success. Reward yourself after achieving really large or meaningful steps. Keep the rewards simple and inexpensive—just marking your progress by putting smiley stickers on your goal sheet next to each completed step may be all the motivation you need to get started on the next one. ■ ■ ■

ARE WE TURNING THE CORNER YET?

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Market timing is a futile waste of energy. But there may be other wise financial moves available to you.

For those of you in transitional or distressed situations, we typically advise you to maintain an extra cash cushion. If your life situation is stable and your future income stream is on track (such as through a bond ladder), dollar cost averaging into the stock market is very beneficial. If you haven't done so recently, it's probably time to review your portfolio and make adjustments as appropriate.

It may be advantageous to refinance your home mortgage at a lower rate (unless you owe more on your house than it's worth). However, jumbo mortgages (more than $417,000) still carry very high rates, and it is seldom worthwhile to refinance those.

This experience of living through the worst economic period since the Great Depression of 80 years ago will have a lasting and positive impact on most of us. The losses will ultimately be recouped, and many people—probably more than have realized it—will be able to outlast even a continuing downturn. More importantly, it has made many of us aware that we had been frittering away money on things we didn't really value. I believe this lesson has to be relearned by each generation as we discover that our investment statements aren't the scorecard for our real wealth. ■ ■ ■

MAINTAINING YOUR BALANCE IN ROCKY TIMES

by J. Marc Vorchheimer, CFP® Spring Valley, NY

In today's economic environment, it's easy to get discouraged. So much of what we believed with certainty just a few months ago is now up for debate or just plain false. Huge financial institutions have disappeared overnight, home values have plummeted, and some distressing financial scandals have been exposed. People are extremely cautious and apprehensive about what the future (and present) will bring.

Here are some strategies to help assure your peace of mind and maintain a balanced perspective during these turbulent times:

1. Appreciate what you have.

Take stock of all you have rather than what you are lacking or worried about. Focus on the fact that you have a functioning mind and body, clothing and shelter, and personal possessions that are important to you.

2. Rethink your personal and financial goals.

Review your personal goals and determine whether they are consistent with your perspective in the "new world" we live in. There may be matters that are more important to you now that your life may seem more uncertain. For example, perhaps you can make doing something selfless for someone else a higher priority than it was previously.

3. Develop and maintain a sound financial strategy.

If you do not have a sound strategy to reach your financial goals, now is the perfect time to create a financial plan. If you are fortunate enough to have a plan in place, stick to it. After all, a good plan is something designed to weather a wide variety of financial conditions. (Otherwise, it was never a sound plan in the first place.) In addition, your financial goals may also have changed. For example, you may want to reduce your immediate living expenses so you can still meet your current retirement goals or increase the size of your emergency reserves fund. If your goals have changed, then you probably need to adjust your strategy as well.

4. Tune out negative press as much as possible.

We are in control of what we listen to and read. Avoid exposure to negative and discouraging media reports. Don't spend too much time browsing the Internet searching for economic predictions or the number of laid-off employees. Instead of trying to change what you cannot control, focus on what you can do about your situation. For instance, keep a log of your work-related accomplishments, which will help if you need to update your resume. Even better, use the information to create a report to your boss so he or she will know the contributions you've been making.

Instead of trying to change what you cannot control, focus on what you can do about your situation.

5. Spend time with family and friends.

Be grateful for family and friends and spend some extra time with them. Make it quality time by keeping the conversation focused on the positives in your life. Of course, it's fine if you also need to discuss your concerns and fears. When we feel alone, whatever bothers us feels bigger than if we are together with loved ones with whom we can share our feelings. People who are close to you and care about you will usually listen to your worries, which in itself is a relief. Just be sure to turn the conversation back in a more positive direction as soon as you can.

6. Be creative and cheerful.

Try to think outside the box. Maybe it's time to develop a new hobby or skill. It doesn't have to be costly or very sophisticated. It should be fun and something you look forward to. Choose an activity that will give your mind a break from our stressful world. And support those around you with a bright and friendly demeanor. Your positive energy will likely put a smile on someone else's face—which is the one you get to see anyway. ■ ■ ■