

**From John-** I hope you have had a very nice summer! A.J., Abby and I enjoyed a vacation visiting several friends and doing a little sight seeing in the Washington, D.C. area in mid- August. Fortunately, we got a small break in the heat. In D.C., gas was nearing \$3.00 per gallon! Please consider efficiency when making new or used purchases- especially of cars, homes, home improvements, appliances, and heating and cooling systems. A little extra investment up front may save you money over time, keep the environment cleaner and help reduce U.S. dependence on foreign oil- lowering our trade deficit and stabilizing our economy a bit.

**New Risk Tolerance Survey!** – One of life’s most unpleasant surprises is to discover you have suffered a significant loss because you under-estimated the risks involved. Similarly, it can be almost as disappointing to find you have not made the most of your opportunities because you over-estimated the risks involved. Financial Solutions has invested in state-of-the-art software to help you understand your risk tolerance and match your investment portfolio accordingly. The survey only takes ten to fifteen minutes for most people to complete. We will be contacting all comprehensive and investment clients who have not yet used this specific tool to fill in the questionnaire and begin analysis with John, or you may contact us to start right away.

We can give you an account name and password; then you can complete the questionnaire on your own computer at your convenience. If you prefer, we can “test” you at our office or send you a paper copy. To learn more go to the non-advisor site at [www.myrisktolerance.com](http://www.myrisktolerance.com)- **but do not buy.**

## **Investments - How important is diversification to investment success? Extremely!**

Clients who were primarily invested in the tech-heavy NASDAQ on January 2000 have seen a 46% loss since then. If you indexed your portfolio to the large company S & P 500 index in January 2000, you have lost 8%. On the other hand, if you were in corporate bonds in January 2000, you are up 39%. Small cap stocks are up 87% and mid cap stocks, 57% over the same time.

A “balanced” mix of 30% large cap stocks, 18% foreign stocks, 35% bonds and 17% mid/small cap stocks rose over 40% during the last five years. While the “balanced” portfolio might not have risen as much as some individual asset classes (small and mid-cap value, for example), it provided a much smoother ride than the hot asset class of the moment.

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**Real Estate** – Real estate as an asset class may slow down or even go negative in some portion of the next few years. Many economists now compare the real estate market in general to the tech market of the late 1990s- an unsustainable bubble. Of course, some pockets of the country will continue to grow while others will see dramatic declines. Use caution and consider diversifying if real estate is a large portion of your investment portfolio!

**Junk Mail/Telemarketing** – Too much junk mail? Telemarketing still a nuisance? Get rid of some of it:

To remove your name from the marketing lists of the three major credit reporting bureaus, call 888-567-8688 or go online to [www.optoutprescreen.com](http://www.optoutprescreen.com). This should greatly reduce unwanted credit card and insurance offers.

To register your telephone number with the National Do-Not-Call Registry, call 1-888-382-1222 from the number you wish to register or go online to <http://www.donotcall.gov> (e-mail address needed). No Do-Not-Spam service exists at the present time. Beware of a scammer who is trying to get your e-mail address by pretending that the service does exist.

If you do not wish to receive special offers or unsolicited convenience checks for cash advances from your credit card company, write to the company and ask that your name be removed from those mailing lists. (Your credit card should have a toll-free number on the back. Call to find out the procedure for your company.) Shred any unsolicited checks you do get.

**Record Keeping** – We have had several calls from clients asking which documents to keep and which to throw out. You may substitute a high-quality, anchored, fireproof and waterproof safe for a safe deposit box at your discretion.

1) Documents that should be kept permanently in a safe deposit box.

- Birth, marriage, and death certificates
- Adoption and custody papers
- Citizenship papers
- Divorce and separation papers
- Settlement agreements
- Military papers
- List of current insurance policies
- Inventory of household furnishings and appraisals, jewelry (photos are a good idea, video even better)

2) Documents that should be kept permanently in home files:

- Social security card
- Diplomas, transcripts
- Medical history
- Employment records
- Insurance policies and records of claims made and paid

- Advance directive or living will, durable power of attorney for health care (copies with agents and family members)
- Copy of inventory of household goods and appraisals
- Copy of jewelry inventory

3) Documents that should be kept in safe deposit box for duration of ownership (or longer) or until they are replaced:

- Real property deeds, including rental property
- Title papers, including rental property
- Lien documents, including rental property
- Motor vehicle titles, purchase receipts and licenses
- Bonds, stocks, and other securities
- Savings certificates (keep list at home)
- Burial lot deed

4) Documents that should be kept in home files for duration of ownership (or longer) or until they are replaced:

- Will ( signed original with probate division of circuit court and/or lawyer's office)
- Passports
- Tax assessment notices, purchase contracts
- Receipts for capital improvements
- Records of auto service/repair
- Credit, debit, and ATM cards, records of credit payments and account statements

5) Documents that should be kept for a minimum of seven years:

- Receipts and records of deductible expenses, income and tax payments
- Copies of past tax returns
- Bank accounts, account registers, and statements

### **Records to shred**

Note: I recommend an intermediate shredder like a Fellowes PS80C2 to avoid jams and to shred several pages at a time at a reasonable noise level. Shredders less than \$50 are often a waste of money & time.

- Monthly brokerage account and mutual fund statements AFTER you receive annual statements that summarize the same information
- Insurance policies or illustrations presented by an agent that you never bought.
- Insurance policies no longer current **and** with no potential claims outstanding or that could be made.
- Superseded wills, powers of attorney or living wills (keeping old versions can be confusing)
- Pay stubs after reconciling your annual W2 from your employer.
- Receipts and cancelled checks over three years old (except those needed for tax or home cost-basis reasons).
- Any records you plan to discard with social security numbers, account numbers, passwords, or other confidential information.

**Regrets of Recent Retirees:** An article in the May issue of Money magazine lists the regrets of recent retirees, according to a survey by Fidelity and Putnam Mutual Fund companies:

- They wished they had more savings outside their company retirement plans.
- They wished that they had saved raises instead of spending them.
- They wished that they had worked longer.
- They wished that they had learned how to withdraw their assets.

**Tax Rates** The tax rates used for 2004 will remain in effect for 2005, but the tax brackets have edged slightly higher to help offset the impact of inflation. The standard deduction for joint filers will remain at twice the single deduction through December 2010 unless laws are amended.

For tax payers in the 25%-35% brackets, the rate on long-term capital gains remains at 15%. Additionally, “qualified dividend income” is now treated as capital gain so it also receives the lower 15% rate.

**Retirement Plans** Here are the maximum contributions for various plans in 2005. If you are age 50 or older, you are allowed higher “catch-up contributions.” Take full advantage of these plans.

	<b><u>MAXIMUM PLAN CONTRIBUTIONS</u></b>	<b><u>50 or older</u></b>
• Roth IRA	\$ 4,000	\$ 4,500
• IRA	\$ 4,000	\$ 4,500
• SEP	\$42,000	\$42,000
• 403(b) employee	\$14,000	\$18,000
• Keogh	\$42,000	\$42,000
• 401(k) employee and self employed	\$14,000	\$18,000
• SIMPLE IRA	\$10,000	\$12,000

**New retirement options** - Roth 401 (k) plans and solo 401 (k) plans for sole proprietors will be available in 2006.

**Idea for Small Business Owners** – If eligible based on income limits, consider contributing to both an individual IRA (perhaps a Roth) and an employer plan (such as a SIMPLE).

**Estate Planning** - by John's friend and colleague, Ron Pearson, CFP

When Congress returns in September, many will be focused on the Supreme Court nominee; however, two competing bills to change estate taxes may have more direct impact on you. One bill already passed in the House and two votes short of passage in the Senate would **eliminate estate taxes permanently**. This bill would certainly reduce a lot of “needless” cost that people incur trying to minimize current estate taxes. Some, though, are concerned that charitable gifting would suffer without the incentive of avoiding estate taxes. In addition, the **elimination of estate taxes causes us to lose the step-up in tax basis upon death**. Currently, we don't have to know what Granddad paid for that AT&T stock in 1950 that has split many times and spun off numerous

companies because the value his heirs use for capital gains tax purposes is the value on the day Granddad died. If estate taxes are eliminated, there will be no step-up in basis and the CPAs and lawyers who did estate tax returns will now be making their money doing research in the tax basis of companies, real estate and investments bought many years ago.

The alternative plan put forward in the Senate, which could well pass instead of the estate tax elimination, would keep the current system, but raise the estate tax exemption to somewhere between \$3 million and \$8 million. For many people, including small farmers and small business owners, this would eliminate their need to worry about estate taxes. This alternative would keep the current step-up in tax basis at death. [**Call your Congresspersons if you like.** – John] We should know which direction estate taxes will take within the next few weeks. **You may want to wait to make major decisions that affect your estate taxes until the legislative process is complete.**

**Even though estate tax laws may change, most of you still need to do estate planning!** You need to make sure your heirs get the appropriate shares of your estate. You need to protect some of your children or grandchildren from themselves. You need to have professional management of assets. You need to give someone the power to make financial decisions in case you are incapacitated. You need to give someone the power to make health care decisions if you become incapacitated. You need to leave final medical instructions in case you have a terminal illness or are in a coma. **How many of you promised yourselves to create a health care power of attorney/living will after watching the Terry Schiavo spectacle? How many of you followed up and did something about it?** Health Care Powers and Living Will forms are available on the Internet or from hospitals as well as your attorneys. Virginia combines both forms into an **Advance Medical Directive**. In Virginia, you need two witnesses to your signature, but not a notary. In Virginia, **doctors are required to honor an Advanced Medical Directive**. Other states have different criteria. If you move, you should verify that your estate planning documents meet the legal requirements of your new state.

Sometimes you will want to set up trusts to protect your child's share from a spouse he/she should never have married or from creditors if they should have money problems. Or, you may want to put it into trust because your child needs to have the assets professionally managed. Finally, you might want to preserve some of the money for your grandchildren. With all the blended families these days, trusts are critical to keep money in your family. For example, if you are married to your second/third spouse and both of you have children from a former marriage, your current spouse and her children (or his/her future spouse) would reap the benefits of assets that you held jointly. Instead, you could leave your assets to a trust that your current spouse could use for his/her living expenses while he/she is alive, but upon his/her death, your own children would receive the assets. I see many situations where people take the easy route of putting things in joint names so they won't have to spend money on attorneys only to **unintentionally disinherit some of their own family members**. Too often, some **time spent with an attorney could have led to a solution that would have protected everyone's assets, provided income to current and future families and distributed the assets to all the appropriate people**. Don't be penny-wise and pound-foolish!

**Business Mileage IRS Allowance** has increased to 40.5 cents per mile for 2005.

**Pass It On** - If you find this quarterly newsletter helpful, feel free to pass it on to a friend or two. If this newsletter was passed on to you and you would like to be on the e-mail list, please send me an e-mail (see below) that says "Add to newsletter e-mailing." Notice: Clients always receive first priority. They are entitled to first release of information, extra information, and copies by first class mail.

Some of the information in this newsletter is general in nature and not intended as specific advice. Please call if you have questions.

**Insurance Updates** – Is it time to update your insurance? Remember that I am only licensed to consult and do not sell any policies.

**Professional Liability/Business Owners:** If you need insurance for your business or professional liability, please do not overlook this important coverage (if you are not sure, give me a call).

**Life:** Term insurance is often the easiest way to afford the coverage you need, but it is not right in all situations. Look over your life insurance policies if you have recently had a significant event such as a birth, adoption, marriage, divorce, job change, new business, disability, or death. Make sure beneficiaries are up to date and that coverage is adequate for your current situation.

**Disability:** The younger you are and the lower your emergency savings and net worth, the more important disability insurance becomes. Short-term is helpful if you have little savings, but long-term is even more important because of the years of income involved. Finding yourself or a loved one disabled is troubling enough, but it does not have to ruin your financial plan if you're covered.

**Property & Casualty:** Be sure you have replacement coverage on your home if you can get it. Is your home replacement coverage adequate? Call your agent for a review. It should be 100%, but must be at least 80% to ensure coverage of smaller claims at full value.

**Liability:** If you are relying on state minimum liability coverage for your auto, your assets and future income could be at risk. Specific coverage depends on your risk tolerance, net worth, future income and current budget. As a general rule, I recommend clients increase liability coverage to make sure their financial plans are not ruined in the case of a tragic accident. The costs are not as high as might be expected and can often be offset by increases in deductibles. If you have less than \$250,000 each person /500,000 each occurrence / 100,000 property auto liability coverage or less than \$300,000 home liability coverage and have not discussed this issue with me or with your insurance agent, consider doing so soon. The final decision is always yours to make.

I also always recommend umbrella liability coverage to back up primary coverages. A \$1 million umbrella policy generally costs around \$140 to \$300 for a year of coverage. The odds of needing it are low, but the results if you need it and do not have it could be disastrous. A small percentage of people need more than a \$1 million umbrella while many people with smaller budgets opt out at their discretion.

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