



**John Fiege, CFP®**

CERTIFIED FINANCIAL PLANNER™

*Objective Advice to Help You Reach  
Your Goals & Find Peace of Mind*

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Greetings!

Financial Solutions happily announces that **William Drinnon** has joined our firm. A native of Tennessee, William has a background in business systems, financial accounting, report management, budgeting and service to others that we believe is exemplary. William lives with his wife Emilie and two toddlers in Exmore. He will be assisting John with planning issues and focusing on helping business owners make their operations more efficient and profitable. He will provide top-notch development and training on the use of systems such as QuickBooks so that owners can fine tune management and work better with their accountants. William will also help families and individuals with income and expense management, sometimes with systems like Quicken, Money, or online banking.

For those who hold investment accounts with us at TD Ameritrade, we will be mailing new reports to you showing performance from December 30, 2005 to June 30, 2006 sometime in the next month. As we develop the system during the next several months, we hope you will find these statements more helpful than those from TD Ameritrade.

Financial Solutions' web site, [www.johnfiege.com](http://www.johnfiege.com), is under development and should be available sometime in August. We hope to make it an informational, interactive site you will want to frequent.

**Comprehensive Investment Planning**

Serious, comprehensive investment planning involves an understanding of:

- 1) ALL YOUR INVESTMENTS including savings, CDs, savings bonds, real estate, businesses, retirement plans current and past, non-brokerage accounts, brokerage accounts, collections and more. Do you know what your WHOLE portfolio contains?
- 2) The costs involved with your investing style. Could costs be lowered to increase your returns? Small increases in returns over the long-term can make a significant difference in the final tally.

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Some ways to lower costs: a) Avoid loaded funds unless you use a good broker b) Some funds that normally have a load (like American Funds) can be found for no load from a fee-only planner c) He) Use funds have low total expenses, such as most Vanguard and some Fidelity funds D) Don't pay more than modest fees or commissions unless the advice is worth it and your advisor is proactively seeking your best interests. Do you know if you pay below average or above average costs?

- 3) Your ability to withstand specific dollar losses over certain periods of time. Part of this is physical (your actual dollars needed to purchase necessities) and part is psychological (I can't sleep at night because I could lose money). Setting up your portfolio to be within that tolerance. (Many folks have been labeled "conservative", "moderate" or "aggressive" based on few facts and without being informed what that really means in terms of potential losses.) Do you know the risk level of your current portfolio?
- 4) Protection of funds you might need within five years or so.
- 5) Effect of investments on income and ability to retire.
- 6) Effect of investments on taxes, and determining if that impact can be reduced without lowering returns or increasing risk.
- 7) Estate and College Planning – types of accounts to use, titling, other issues
- 8) Use of modern portfolio theory and customized tools to develop your total portfolio in coordination with other advisors and within constraints of retirement plans with limited choices.

### **Retirement Plan Setup – Deadline for 2006 SIMPLEs is Oct. 1**

Small business owners, are you aware of the various methods to save money for retirement for you and/or your employees? There are many options available and you may want to consult a professional prior to choosing one so that it best fits your needs. A SIMPLE IRA or 401k is a slightly flexible option that may help you save more for retirement, retain good employees, recruit better employees, and save taxes. However, you will not qualify for 2006 unless you set it up on paper, which is easy to do, by October 1. There are two standard forms – 5304 or 5305 – that you could use for a SIMPLE IRA. Neither of these needs to be filed with the IRS. The following web site is for an employer who will use one custodial account for all employees: <http://www.irs.gov/pub/irs-pdf/f5305sa.pdf> For more information, see: [http://www.toolkit.cch.com/text/P05\\_4677.asp](http://www.toolkit.cch.com/text/P05_4677.asp) or feel free to call us.

### **Retirement Risk Index**

A recent column by Humberto Cruz, a wonderful financial planning writer, discusses the retirement risk index, a creation of the Center for Retirement Research at Boston College. The center's director has issued a report showing that at least 43 percent of American families are risking inadequate retirement income. Cruz persuasively shows that the assumptions underlying the report are probably not conservative enough and that the actual percentage of at-risk households is larger. The two-fold suggested solution to the impending retirement crisis is: 1) work longer (at least until 65) and 2) save perhaps 3% more. We suggest creating a retirement plan. (Cruz's column is in the June 14, '06 South Florida *Sun-Sentinel*.)

### **Savings = Patriotism?**

Speaking of savings, the already low national savings rate dipped even lower last year, becoming negative due to spending on credit. The American government and the average American person both run deficits; so who funds our credit? Other countries! Consider saving more an act of patriotism.

More importantly, you may need to save more to increase your personal security for emergencies and retirement. Unless a client has high-cost debts, we recommend having an emergency savings account worth 3-6 months of after-tax wages.

### **Spending Plans - How to Reduce Costs**

Experts suggest tracking expenses to see where you are spending and then deciding where to make cuts. However, this method simply does not get put to use by enough people. We realize that the process is tedious and can be difficult to understand, but for some of us it is a vital tool. From our experience we know many people underestimate spending and wonder where their money went. Don't let this be you. The local extension offices are wonderful resources for budgeting assistance, and there are others.

Another savings method is simply to have funds withheld or withdrawn from our paychecks and put directly into savings and investments. If we do not use credit, this method forces us to stay within spending limits. Don't put anything on credit you can't afford to pay in 30 days, barring an emergency.

How would you go about saving an extra one-three percent of salary? Where is money wasted? Here is a list of the likely suspects. Pick one or two areas where you might cut back or shop around for better prices:

1. A bigger, fancier house, which also increases taxes and most utility costs.
2. An expensive vehicle that may also need extra gas, maintenance and repair.
3. Grocery— Junk food, high prices for convenience, high prices for brand names (sometimes even after coupons), not planning menus or using leftovers, not shopping sales, impulse buying (carry a specific list and don't shop hungry), not buying generic drugs (including over the counter- such as ibuprofen for Advil/Motrin and acetaminophen for Tylenol.)
4. Extra books and magazine subscriptions – most available in libraries
5. Gas— poorly planned or unneeded trips, wrong tire pressure; inefficient vehicle.
6. Dining out
7. Cigarettes, alcohol, and/or expensive hobbies.
8. For some, late fees and high interest payments.
9. Insurance – Paying too much for too little policy or service.

### **New Federal Tax Law**

Those in the 10% and 15% tax brackets (about ¾ of the population) will benefit from the Tax Increase Prevention and Reconciliation Act which Congress passed in May. Their capital gains and stock dividends will be taxed at 5% in 2006 and 2007 and will drop to 0% from 2008-2010. For those in higher tax brackets, capital gains and stock dividends will continue to be taxed at the all-time low of 15%.

Capital gains are profits from appreciation on property you owned and sold in that year such as mutual funds, stocks, and real estate.

Consider if this tax break might be a useful planning tool for you. It may be if we can get your tax bracket lower in one of those years!

The bill also raises the AMT exemption amount from \$58,000 for joint tax filers to \$62,550. This move alone will lower the tax burden for approximately 15 million households. Additionally, the bill also offers these taxpayers protection from the AMT if they also claim several popular tax credits, such as the dependent care and education credits.

Taxpayers who earn more than \$100,000 will now be able to convert their Traditional IRAs into Roth IRAs. The change is expected to raise about \$6.4 billion in revenue over the next decade because people who opt for the conversion must pay taxes on the value of their account.

The bill also extends the “kiddie tax” cutoff from age 14 to age 18. The kiddie tax is when a child's investment income, such as interest, dividends, and capital gains, are taxed at the parent's tax rates instead of the lower tax rates their children would qualify for. This will change a fairly common practice of making gifts to minors to lower family tax bills.

Individuals making an offer-in-compromise to the IRS to wipe out their tax debts can no longer postpone making a partial payment of their proposed settlement offer while they wait for an IRS ruling on their request.

### **Sales Tax Holiday**

The Virginia General Assembly has declared that an annual sales tax holiday on limited items will occur on the first Friday in August and continue until midnight the following Sunday. Consumers will pay no sales tax on school supplies, clothing, and footwear at those times. Watch ads closely.

### **Virginia Taxation**

The Virginia General Assembly repealed the state tax on estates as part of compromise budget legislation passed on June 20<sup>th</sup>. The other part of the compromise places restrictions on the Conservation Easement Tax Credit Program with fewer restrictions for areas in the Chesapeake Bay watershed, including the seaside of Accomack and Northampton Counties.

### **Yes, Virginia... There Is An Eastern Shore™**

John and JoLynn Hart, a local Realtor and business owner, are currently selling the “Yes, Virginia... There Is an Eastern Shore”™ T-Shirt. The t-shirt updates the design created by John's father 18 years ago. The new version asks us to “...Preserve the Hidden Gem of the East Coast!™,” and 5% of profits will go to charities that work toward local preservation and conservation efforts. John does not spend much time on this business, leaving that to JoLynn, so that he can dedicate his time to serving Financial Solutions clients. If you are interested, the shirts are available at many local retailers and at [www.yesvirginiatshirts.com](http://www.yesvirginiatshirts.com).