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

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In This Issue:

- | | | |
|---------------------------|----------------------|-------------------|
| 1) The Housing Market | 5) Energy Tax Breaks | 8) Investments |
| 2) Medicare Means Testing | 6) Cash | 9) Portfolio Risk |
| 3) Medicare Rates | 7) Care Agreements | 10) Bond Basics |
| 4) Pension Protection Act | | |

Happy Holidays!

I am grateful for family, friends and all my wonderful clients. My brother Bill and his wife Renee are expecting their first child in a few weeks, and I had a wonderful visit with them over Thanksgiving. We're looking forward to Christmas!

Are you comfortable with the risk level of your investment portfolio? If not, please be sure to read the article regarding that topic on page 3. We want you to sleep well at night. Oh, and be sure to check out our website, www.johnfiege.com. When you go on, send me a quick e-mail and let me know what you think.

What's New That I Should Know?

The housing market, which contributed so much to the gross national product in the early 2000s, has cooled significantly. The National Association of Home Builders Market Index has fallen to a sixteen-year low. New home sales are off 17% from a year ago, and re-sales are down 13%. After several years of booming home sales and spiraling prices, this has been expected. We do not know how far the downward spiral will go or how long it will last.

Medicare means testing begins in 2007 as a result of Medicare drug legislation passed in 2003. Starting January 1, higher income seniors will pay more for Medicare Part B premiums than lower income seniors pay. The higher premiums for doctors' services and outpatient coverage will go into effect for individuals with incomes of \$80,000 or more and for couples filing jointly with incomes of \$160,000 or more.

Medicare Rates for 2007 – Medicare Part A costs are scheduled to increase in 2007. The deductible amount for a benefit period will increase from \$952 to \$992. Medicare Part A co-payments will increase from \$238 to \$248 per day for days 61 through 90 and from \$476 to \$496 per day for days 91 through 150 (lifetime reserve days) per benefit period. Co-payments for skilled nursing facilities will also increase – from \$119 to \$125 for days 21 through 100 per benefit period. There is still no premium for seniors with at least 40 quarters of coverage.

Pension Protection Act of 2006 - President George Bush signed the Pension Protection Act of 2006 on August 17, 2006, saying that employers “should keep promises ... to workers.” Companies must now fund their pension plans 100% and are given seven years to eliminate shortfalls. Also, companies must pay more to the Pension Benefit Guarantee Corporation to protect pensions of bankrupt companies.

The act allows companies to enroll employees in pension plans automatically into a balanced stock/bond fund. The employee can change the allocation but can be “forced” to set some funds aside for retirement.

Tax-free withdrawals from 529 College Savings Plans will continue past 2010.

Those over 50 may continue to add \$5,000 catch-up contributions to their 401k/403b/457 retirement plans. Otherwise, the maximum contribution continues to be \$15,000 for 2006; \$15,500 for 2007.

Non-spouse IRA beneficiaries will now be allowed to roll inherited pension plans into an inherited IRA.

New energy tax breaks include credits for up to 10% lifetime for energy-efficient improvements to your home up to a maximum of \$500. Such improvements include insulation and energy-efficient windows and appliances. The amount of credit for the purchase of a hybrid car varies by car, but a credit of up to \$3,400 may be possible.

Staying Wise with Your Money

Cash - How many months will you be able to last if your sources of income were cut off, even without additional debt? If the answer isn't six months, you need more liquid reserves.

Here's a great quote from Jim Stovall's "Winner's Wisdom" column: "People today are in a mad rush to buy things they don't need with money they don't have to impress people who don't care." Things to do instead of spending for things you don't need: 1) Make time for friends and family, 2) Exercise, 3) Volunteer, and 4) Count your blessings.

Care Agreements – Written contracts in which a caregiver agrees to provide services for an elderly or disabled individual in return for a modest salary are becoming increasingly

popular. Services provided under the contract could include such things as running errands, doing laundry, and paying bills. Medicaid laws penalize uncompensated transfers from a parent to a child but not payment for services. Of course, the salary paid must be reasonable, and payroll taxes must be paid. In addition to helping people avoid gift taxes, care agreements can provide “something extra” to the child who gives care, avoiding the need to design a will that leaves more to one child than to another. A lawyer should be consulted to assist with a care agreement as part of estate and long-term care planning.

Another Look at Investing

Investments – According to the S & P’s Indices Versus Active Funds Scorecard (as of October 10, 2006), the S & P’s 500 Index outperformed 80.3% of actively managed large-cap funds during the third quarter. This type of statistic is actually normal. Very few active managers have been able to consistently beat the market over the long-term. Unfortunately, studies show that both the average individual investor and the average professional advisor selling broker-sold funds underperform the returns of the market.

This is why Financial Solutions fee-only investment philosophy uses low cost, tax-efficient mutual funds, exchange-traded funds (ETF's) and other tools that are designed to help ensure you receive a return based on the expected returns in the markets in which you invest. Part of our strategy involves the use of Dimensional Fund Advisors. The model of investing for Dimensional Funds is not based on speculation, but rather on the science of capital markets which includes decades of research to guide the way. We will send more information in the near future on these funds, which we do not endorse exclusively and do not profit from in any way. To see why we like Dimensional, visit www.dfaus.com.

Investment Portfolio – Caution: Is your investment portfolio too risky?

The Dow Jones Average (based on 30 stocks) recently reached an all-time high. However, the NASDAQ and S & P 500 indexes are still well below their highs.

At Financial Solutions, we believe we can never predict what’s going to happen in the various financial markets, especially in the short-term. That’s why we focus on helping you accurately determine your risk profile based on how much you could afford to lose in a three-ten year time period, allocating your portfolio for optimum asset class returns relative to risk, keeping funds you might need soon in stable investments, and efficiently keeping costs as low as possible. In addition, clients who hire us for investment management also receive detailed financial planning services, coordination of planning with other professionals, and regular implementation and monitoring assistance.

Data based on the fact that short-term interest rates are higher right now than long-term (called an inverted yield curve) tells us we have about a 40% chance of a mild recession in 2007. No need to worry. Only consider taking action if you are currently invested in a risk profile higher than you can truly tolerate. If your risk profile is properly matched to

your portfolio, there is no need to change a thing. Down markets happen, and a good portfolio is designed to bring you through to the other side. We recommend you learn how your whole portfolio tends to perform in down markets and also the annual costs, in dollars, of maintaining the portfolio. If you are not sure, talk with your advisor.

Summary for Earning Market Returns

The key to earning at least market returns is to have the properly risk-aligned asset class allocation for your portfolio. Review your portfolio to consider rebalancing generally once a year. Next, utilize funds in those classes that provide the best returns for the lowest costs over the long-term. Add to them on a regular basis, in up or down markets. Don't sell unless you have a pre-determined reason for needing the funds. Don't give in to the temptation to buy too much when prices are already high. Generally, avoid highly sold variable annuities because the costs often outweigh the benefits.

Bond Basics – Bonds are securities similar to IOU's. When you buy a bond, you lend money. The loan may be to a government, municipality, corporation, or other entity. You will be given a specific interest rate and the promise of repayment of the principal when the bond matures. Types of bonds include treasury bonds, municipal bonds, corporate bonds, mortgage bonds, and international bonds. People generally invest in bonds to have a predictable stream of interest income, to stabilize a portfolio, and to preserve capital.

Although it is possible to lose money in the bond market just as it is possible to lose money in the stock market and real estate market, high quality short and intermediate-term bonds are considered less volatile than stocks. Low quality and long-term bonds can be relatively risky.

In the bond market, risk correlates to two elements of the note. A bond is riskier if all other things being equal, the percentage of interest paid by the bond relative to the price paid for it (the yield) is high. In other words, the riskier the bond, the higher the interest rate and/or the lower the price will be. Treasury bonds, backed by the US government, are considered to have no credit risk and will almost always have the lowest interest-rate returns.

The second portion of risk comes from the time element of the bond. The longer the time to a bond's maturity, the greater its interest-rate risks. Short-term bonds (bonds that mature in three years or less) will generally have lower yields than long-term instruments.

In general, when interest rates rise, bond prices fall. The longer the term of the instrument, the more drop. When interest rates drop, bond prices rise. The longer the term the more the price will rise.

Your risk profile helps determine not only the percentage of bonds or bond funds in your portfolio but also the types of bonds or bond funds.