



John Fiege, CFP®
CERTIFIED FINANCIAL PLANNER™

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

06/ 11/2007

In This Issue:

The Economy & Investments

Consumer Reports Recommendations

Financial Planning Assumptions

New Kiddie Tax

Dear Client,

We hope that everything is going well for you.

William and his family will be traveling to Texas on June 14th to visit with Emilie's family. John will be available while William is away from the office.

John and his family will be vacationing in Rehoboth Beach for a week beginning on June 24th. William will be in the office during the afternoons while John is gone. Leave messages on our voice mail, and he will return your calls.

Second quarterly estimated federal and Virginia tax payments are due on or before June 15, 2007. June is the only two-month quarter, while the 4th quarter is four months.

With tax season behind most of us, this is a good time to review all insurance policies including homeowners, automobile, personal umbrella, medical, life, annuities and long-term care. Check that the amounts and types of coverage are still appropriate. Confirm the ownership and beneficiary designations for all life insurance and annuity policies, including those provided by your employer. Send copies to us for review.

The Economy and Investments – As always, the future is unknowable. The growth in the stock market over the past few months with little correction seems excessive to us considering the potential for recession and for any new world chaos, but who are we to say?

One of the metrics we follow is the price to earnings (P/E) ratio of the stock market. The P/E ratio is the price of the stock or basket of stocks divided by its earnings. The higher the number, the more people are willing to pay for the same amount of current earnings.

Right now it is 20-30% higher than historical average, but there are funds and stocks that are more in line than others. We're choosing those for people who need to be investing something in the market.

Right now we do not suggest performance chasing. As you may recall, many experienced large financial downturns in their portfolio during 1999-2002 because they bought a few days or months before the big market drop. This is why we are holding cash and bonds for a number of clients, particularly those who are in or near retirement.

If you have worked with us to thoroughly assess your risk tolerance, then we suggest staying the course. We have suggested that the high flyers among you consider taking your risk level down a notch. We have done that already for most clients.

Some good strategies for new money include adding to existing funds periodically and adding a balanced fund to your portfolio. We also look for what seem to be good buys at any particular time. A stock we are currently suggesting that is much like a mutual fund is Berkshire Hathaway. This stock is trading at a P/E under 15, well below the market. Warren Buffet, who runs the firm, does not like to lose money. So he is sitting on over 30 billion dollars of cash investments. I wish we could all do the same!

If you are in a taxable account, another consideration concerns income and capital gains taxes. After we determine risk and asset allocation, we use tools to keep taxable gains lower than average. Some strategies include municipal bond funds, tax-managed funds that do not have much buy/sell turnover, funds paying qualified dividends, and funds with growth components that are not taxed until sold.

Financial Planning Assumptions – In preparing financial plans, planners have to make assumptions. Here is data from consumerreports.org [2/12/2007] concerning common assumptions:

Inflation – Since 1913, the average inflation rate has been 3.3%. In our plans we match inflation to the period of time we are using for return estimates, currently higher than 3.3%

Education inflation – College tuition rates have been going up 8% on average since 1978. This trend continues.

Rate of Return – Since 1926, the average annual rate of return on stocks has been 10.4%, and the average annual rate of return on long-term bonds has been 5.5%. We do not think returns will be higher during the next ten years.

Life Expectancy – A couple who are both 65 have a high chance that one will live to be 90. We suggest extending your assumed life expectancy if your family history suggests doing so.

Consumer Reports Recommendations - The February 12th article at consumerreports.org also covers portfolio compensation, conflicts of interest, portfolio holdings, proxy voting, and Security and Exchange Commission (SEC) inspection results. Then the article concludes:

“In an environment plagued by scandals, investors need confidence to move ahead. That’s hard to do without solid information. We support recently proposed SEC rules that would require funds to disclose their portfolio holdings quarterly, along with their proxy voting policies and the votes themselves.” Until disclosure of portfolio manager compensation and all possible conflicts of interest become public, these are steps that Consumer Reports recommends:

1. “Consider restricting your holdings to stand-alone mutual-fund companies.
2. “Avoid fund overlap...Check to make sure you aren’t overinvested in one security or type of security.”
3. “Avoid unnecessary expenses. Stick to no-load funds that don’t charge 12b-1 marketing fees. Then shop for funds with low expense ratios, generally around one percent for domestic stock funds.

New Kiddie Tax – The Iraq spending bill that President Bush signed into law on May 25th included new rules for the so-called “kiddie” tax. The tax now applies to college students up to the age of 24 – so that they as well as children 18 and under now pay tax on any part of *unearned* income exceeding \$1,700 at their parents’ tax rate. Kids can still earn as much as they want from their own labors. Strategies for avoiding the tax include Coverdell Education Savings Accounts and 529 college savings plans. Beginning in 2008, the only way that college students under the age of 24 can avoid the kiddie tax is to provide over half of their own support from earned income.

Hope everyone has a wonderful summer.

John W. Fiege, CFP®