Money Matters

Marathon Investment Management, Inc.

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Cash - What Have You Done For Me Lately?

By: Amy Mahlen, CFP®

Investors can thank Ben Bernanke for historically low interest rates and the fact that they are receiving maybe one hundredth of a cent interest in their savings accounts these days. Due to this fact, we receive numerous inquiries from disgruntled clients looking for a better alternative for their cash savings. Before reviewing possible alternatives it is important to recognize what cash offers, regardless of what it is yielding. Overlooking this step could side swipe investors and ultimately destroy their wealth in the long-run.

Emergencies and the law of physics: The Webster's Dictionary® defines an emergency as a serious situation or occurrence that happens *unexpectedly* and *demands immediate action*. 'Things' happen to all of us without warning – medical bills, the car needs repairs, replacing household appliances, etc. Under this situation, attention or in this case monetary funds are required at that moment. Where will these funds come from? The best answer is *cash on hand* – you know, your savings account that you have diligently built and protected and purposefully not put at risk in the stock market for times such as these. The fastest way to derail an investment strategy and hinder wealth building is by withdrawing long-term investments early and not allowing sufficient time for the volatility to play out in your favor.

Before investors get frustrated regarding the virtual zero interest rates please consider what a horrible situation it would be if you ran into one of these emergencies and either had to take money from your investments (which could be at a loss but regardless will reduce accumulation down the road) or put on debt which could run an interest penalty (i.e. loss) of up to 20-30% annually depending upon how long it takes to get paid off. Don't let Ben Bernanke bully you around with your savings account which still and always will provide you with short-term and therefore long-term stability and growth - regardless of the virtually zero interest.

To Buy or Not to Buy?

By: Polina Nilva

With home prices and mortgage rates at a historic low, we want to ask ourselves the question: "Do we buy now?" Whether it is our first property, a rental property, or a vacation home, there are a few facts that we should consider. First, mortgage rates are at their lowest in years with averages for a 30-year fixed at 4.22%[i]. According to zillow.com, the national home average price is $173,000[ii], which equates to an approximate monthly mortgage payment of $848/mo. Of course, that amount does not include a lender preferable down payment of 20%, property taxes, and mortgage insurance. If a prospective home buyer considers and accepts the financial responsibility of owning a home, the benefits of home ownership will also be realized. For instance, when buying a home, equity is built as the value of the house appreciates. When you make monthly mortgage payments, you are basically paying money forward to yourself (in the form of principle), as opposed to paying it to someone else when renting. Another great advantage of buying a home is the tax write off.

Obviously, there are other facts to consider before purchasing real estate. One such factor is that as home owners are responsible for paying taxes, purchasing insurance, and paying the utilities for the property – giving you substantially more financial responsibility than simply renting. If you are buying a home to utilize as a rental property, there is a possibility that you will

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not have tenants at some point in time and will have to cover the costs of the property yourself. To be prepared for this situation, you would need to make sure you have enough savings to cover the costs that would incur while you do not have tenants.

Overall, it is a good idea to buy a property when it is not too great of a burden to you. It is always good to save money beforehand and have at least a 20% down payment ready at the time of purchase to lock in a fixed 4.22% rate for 30 years. The more you put forward as down payment, the less your monthly mortgage payment will be. The general rule of thumb is that banks will not lend you money if your mortgage payment is going to be more than 30% of your monthly income. So, before buying a home you must consider both the positives and negatives of home ownership as well as the financial strain it may cause if you're not fiscally stable. Good luck on your journey!

Operational News

COST BASIS CHANGES

By: Karree Moore

As 2011 draws near its end, we would like to formally ensure that you are aware of the new cost basis reporting regulation and how it will affect the preparation of your income tax return. Brokerage firms (including Charles Schwab and TD Ameritrade) are now required to report on Consolidated Form 1099, an investor's adjusted cost basis (i.e. the purchase amount), gross proceeds, and the holding period when securities are sold. Previously, such firms reported only the gross proceeds from the sale.

The most important thing to be aware of is what is referred to as "Covered" and "Uncovered" securities and the reporting requirements on each. The determination of covered or uncovered is based on the original purchase date. Depending on the security type and the purchase date (see below), brokerage firms will supply cost basis information on ***covered*** securities to both clients and to the IRS. If the sale falls under the category of being uncovered, it will be your sole responsibility to provide the cost basis information to the IRS on your tax return.

For any security that the brokerage does not have the cost basis, as is often in the case of transfers, gifts and inheritances, or corporate actions, and including those purchased after the effective date (see below), it will be the taxpayer's responsibility to disclose the cost information to the IRS. In contrast, reporting on covered securities will take effect in separate phases over the next three years. Please review the table below. For clients who sell shares that fall under both classifications, you will receive separate 1099 forms; one will show the uncovered sale with only the gross proceeds and the other will show cost, holding period, and gross proceeds.

It is of utmost importance that you are aware that due to the increased reporting requirements **1099s and year-end summary reports will not become available before mid-February**. The changes also increase the likelihood that you will receive corrected forms throughout tax season. Additionally, the design of the revised form will be different than in years past and because of this, both TD Ameritrade and Charles Schwab have dedicated resources to help clients ease into the transition; each will provide in-depth, step-by-step guidelines on how to read the modified report.

We are also here to help! Marathon will continue to send all tax-related investment information to your accountant per your request. To automate the process, if you have not already, please send, in writing, your authorization to release the information to your accountant. If you have any questions or would like to schedule a time to review the changes and how the new rules will impact your tax preparation, please don't hesitate to call and set up a time to talk.

[i] http://www.bankrate.com/mortgage.aspx
[ii] http://www.zillow.com/local-info/

Phase	Security Types	Covered Securities*	Uncovered Securities**
I. Effective Jan. 1, 2011	Equities (individual stocks)	Acquired on or after Jan. 1, 2011	Acquired prior to Jan. 1, 2011
II. Effective Jan. 1, 2012	Mutual Funds, ETFs, DRIPs	Acquired on or after Jan. 1, 2012	Acquired prior to Jan. 1, 2012
III. Effective Jan. 1, 2013	Fixed Income, Options	Acquired on or after Jan. 1, 2013	Acquired prior to Jan. 1, 2013
		*Brokerage will report cost basis to the IRS and to the taxpayer on Form 1099-B.	**Brokerage may supply cost basis to taxpayer. ***Taxpayer is responsible for reporting info to IRS***.