

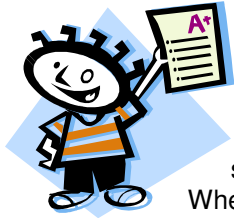


# Destination, Financial Freedom

Getting you there

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## “Doing it Right”

It isn't necessary to ramble off statistics proving that people spend more than what they earn.

Whether you fair above or below the average, most of us are not where we need or want to be. This makes any investment that you currently have much more important. Whether you have assets in a savings account, 401(k), or other brokerage account, it is critical that they are properly managed and working toward your objective. In order to do this, investors must understand asset allocation and diversification and why they are important.

Asset allocation is the process of separating investments between three large sectors; cash, equities and fixed income. Equity is another term for stock which is the partial ownership in a company. Fixed income securities include bonds or preferred stock because they pay interest or dividends at a constant rate providing investors with fixed income cash flow. Cash includes savings accounts, money market accounts, CDs, treasury bills, and other short-term securities.

There are many other sectors and investment styles within the allocation process that should be addressed when creating a portfolio. Without going into to much detail, in the equity arena it is important to divide investments among size and style- such as large company stock (well known companies such as Dell or General Mills), medium and small companies, and the growth and/or value aspect of the company. It is also important to diversify investments between different industries.

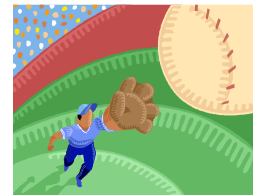
Fixed income securities are categorized by the quality and maturity of the bond. Bond quality is similar to individual credit scores; an issuer that is considered high quality, such as the US government, would have the highest credit score and is labeled most likely to be able to pay its obligations to bond holders. The maturity of a bond is the length of time the issuer is required to repay the investor's principle (initial investment) and interest. Longer maturities have greater interest rate and business risks, and therefore typically offer higher interest payments to compensate for the added risk.

**In order to diversify properly, you must be comfortable with both strong and weak investments in your portfolio.**

The goal of diversification is to distribute investments among all sectors to lower risk. Each category will react differently to factors within the marketplace at various times. If done properly, diversification will result in investments that are doing better than others during a specific period of time. Just because there are sluggish or weak components within a portfolio does not mean that those components are not serving their purpose.

Unfortunately, all investments do not flourish at the same time. We believe there is no way to 'time' the market to know exactly what is going to do well and when. Therefore, in order to capitalize on the current environment and unknown future conditions it is important to be exposed to many areas of the market.

Consider what would happen if an investor was a baseball team manager and in order to win the game one of his players in the field had to catch a ball. Imagine each field position is a different type of investment and when all positions are filled the manager has a completely diversified portfolio. Whichever player catches the ball performs the best during that market year. The manager knows the team they're up against and knows they always hit balls in the outfield. So in anticipation of this, the manager places all of his players in the outfield. But the first batter hits a pop fly to the infield, no one catches the ball and the manager's investments did not perform very well that year. So, the next year he places all his players in the traditional positions in the field



to increase the chance of catching the next ball. The next batter hits a fly ball to left field and the left fielder catches it! Does this make the left fielder a better or more valuable player than the others? Will you put all your players in left field for the next batter? – NO! Each position serves a vital roll in the overall game, and neglecting positions will leave your team vulnerable just as leaving out investments in your portfolio to chase the market or find hot new investments.

## 2006 Contribution Updates

A new year, and the retirement plan contribution limits and catch-up provision (for those over age 50) continue to increase! Keep in mind that you may also make 2005 contributions to IRAs, ROTHs, and SEP accounts until April 15, 2006 for a deduction on your 2005 tax return, if applicable. It is a great time of year to review your finances and your various strategies regarding tax planning, retirement planning, or college planning!

### New Retirement Plan Contribution Limits

Plan Name	2005	2006
IRAs & ROTH IRAs	\$4,000	<b>\$4,000</b>
<i>*Investors over 50 years old</i>	\$4,500	<b>\$5,000</b>
Simple IRA - employee deferral	\$10,000	<b>\$10,000</b>
<i>*Investors over 50 years old</i>	\$12,000	<b>\$12,500</b>
401(k) – employee deferral	\$14,000	<b>\$15,000</b>
<i>*Investors over 50 years old</i>	\$18,000	<b>\$20,000</b>
403(b) – employee deferral	\$14,000	<b>\$15,000</b>
<i>*Investors over 50 years old</i>	\$18,000	<b>\$20,000</b>

**SEP IRAs** - the 2006 contribution limit for SEP IRAs is 25% of wages up to \$44,000.

If you need more information regarding what retirement plan is right for you and how to get started, please give me a call!

## Education Savings Plans

There are many available options for saving for your loved one's education. How much you would like to contribute, the level of investment control you want, how it affects financial aid availability, and many other factors will help determine which account(s) is best for you.



### ROTH IRA:

Some advisors recommend saving for college through a non-deductible ROTH IRA in a responsible party's name.

- Adjusted Gross Income must be below \$150,000 (filling jointly) to make a full non-deductible **contribution of \$4,000 (\$5,000 if over 50)** for the account owner (the parent);
- Withdrawals used for the account holder's, spouse's, child(ren)'s or grandchild(ren)'s higher education expenses are tax-free (any earnings will be taxed at ordinary income if taken within 5 years of the contribution);
- Allows for **self-directed** investment control;
- If the funds are not used for college the account can be used for the account holder's retirement;
- The funds are not considered in the expected family contribution calculation.

### Coverdell Savings Accounts:

- Adjusted Gross Income must be below \$190,000 (filling jointly) to make a full non-deductible **contribution of \$2,000** for each child;
- Earnings and withdrawals used for **elementary, secondary and college** schooling are tax-free;
- Allows for **self-directed** investment control;
- The account is not considered to be an asset of the child's when applying for financial aid;
- If the funds are not used for college the account will be distributed to the child;
- Contributions cannot be made if the child is over 18 years old;
- Coordinating withdrawals with other tax benefits, especially the Hope or Lifetime Learning credits, can be tricky.

### 529 Plans:

These plans can be very misleading if investors do not understand the plan and the right questions to ask. Here is an overview of what the plan has to offer.

- No income requirements to make up to **\$230,000 annual contribution** per year for each child;
- Possible state **deduction\*\*** for contributions (Colorado has 3 qualified plans);
- Earnings and withdrawals used for **college** education are federally tax-free;
- Investments are completely managed by the appointed administrator;
- Responsible party remains **in control of assets** and the child has no rights to the funds, with few exceptions;
- If the child does not go to college or does not use all of the funds, the account can be **transferred** to another beneficiary with no penalties;
- Funds can be distributed back to the responsible party, however, with a 10% penalty;
- The account is not considered to be an asset of the child's when applying for financial aid;
- Coordinating withdrawals with other tax benefits, especially the Hope or Lifetime Learning credits, can be tricky.

#### **\*\*IMPORTANT\*\***

If you are a Colorado resident and have a 529 plan that is NOT one of the following plans, you are NOT eligible for the Colorado state tax deduction.

#### **1. Direct Portfolio College Savings Plan**

*Managed by Vanguard*

#### **2. Scholars Choice College Savings Program**

*Managed by Citigroup*

#### **3. Stable Value Plus College Savings Program**

*Managed by Travelers Insurance Company*

#### **4. Prepaid Tuition Fund**

*Closed to new investments*

Also keep in mind that investors can contribute to all three of these plans in each calendar year if they meet the income requirements on each respective account.