NAPFA Planning Perspectives

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Volume 7 | Issue 5 | December 2012

Celebrating 30 years Fee-Only Financial Planning

In 2013, NAPFA will celebrate 30 years of providing the public with objective, fee-only, fiduciary advice. Throughout the year, we will present special programs to help people become smarter investors, better savers, and more confident about their financial futures.

Year End Brings Uncertainty, But Some Advice Stands Test of Time

By Kevin Adler, Editor, NAPFA

It's a time of uncertainty. Federal action on the "fiscal cliff" is coming down to the wire. Our 2013 tax rates are unknown at this time, as are plans for federal spending cuts and other fiscal measures. Even if a compromise is reached, the impact of those agreements will be unknown for months or years.

While investment professionals and accountants are pulling out their hair, financial advisors are working hard at keeping their clients focused on the long term. Regardless of what happens on Capitol Hill, some strategies make sense in any environment. This issue of *Planning Perspectives* provides a look at some of those ideas that stand the test of time.

Authors who contributed to this issue of the newsletter explain the benefits of increasing your retirement savings; investing lump-sum windfalls carefully; going into the landlord business with eyes wide open; and getting advice from a financial professional (not from your friend).

We wish you a wonderful holiday season, and we hope that our year-end advice will bring you benefits in 2013 and beyond.

NAPFA Speakers Bureau

Are you interested in hosting a financial education event, but don't know where to get a speaker? Let NAPFA come to the rescue. We have developed a speakers bureau of NAPFA-Registered Financial Advisors who will give free presentations about almost any personal finance topic: retirement planning, estate planning, college savings, investing, and more.

All presentations are delivered with the fiduciary, Fee-Only perspective that only NAPFA members can provide. And there will be absolutely NO sales pitch.

Presentations are typically 45 to 60 minutes each, and they will be supplemented with handouts and resources for finding more information.

To schedule a presentation, visit this link that lists our City Coordinators for the speakers bureau. For questions, send an email to Karen Nystrom at nystromk@napfa.org.

Reserving the First One Percent for Your 401(k)

By Jim Blankenship, CFP®, EA Blankenship Financial Planning www.BlankenshipFinancial.com

Since the end of the year is traditionally the time when corporate employees make elections for benefits such as health insurance and life insurance, it's also a good time to consider your 401(k) contributions. If you're a participant in a 401(k), you should maximize your contribution to at least the level matched by your employer; that match is free money that's given to you, simply because you are a saver.

For employees who have yet to take advantage of a 401(k), make a commitment that 2013 is the year when you begin to save aggressively for your future.

If you haven't been putting anything at all into your 401(k) plan, that first one percent can be a little scary. But you need to know that this is a monumental action. Getting started with savings is the most important step you can take—and it's only scary for a little while. Keep reading, and you'll see how putting aside that first one percent can be relatively painless, and soon it will get to be fun watching your account increase in value.

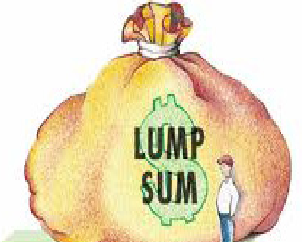
For our example, let's say you make $30,000 annually and your employer matches your 401(k) contributions at the maximum of 100 percent for the first six percent of contributions.

Now, let's say you get 26 paychecks per year. Your net paycheck today, when you're not making any 401(k) contributions, is $884.82. This is the amount you receive after taxes and insurance premiums have been deducted.

When you make the decision to contribute one percent of your income to your 401(k), you will be saving $11.54 every paycheck. That's $300 total during the year. But your paycheck will only go down by $5.91, to approximately $878.91. In other words, the total amount you "lose" from your take-home pay over the course of the year is $153.66.

Since your employer matches 100-percent of your first six percent in contributions, your entire savings will be matched by your employer. You will be saving $11.54 per paycheck, and your employer will be matching that amount in your account. Your 401(k) savings will get a deposit of $23.08 every two weeks when you get paid. At the end of the year, a total of $600.08 will be set aside for you, and all you had to do was learn how to get by on $12.80 less per month! That's a great deal.

Now get out there and do it! Adding one percent to your 401(k) plan right away will definitely pay off in the long run, and you'll never miss it.



What Can Investors Do with a Lump sum?

By Andy Kapyrin RegentAtlantic Capital, LLC www.regentatlantic.com

One of the biggest challenges investors will face is the question of timing: "If I have a significant amount of cash, when is the best time to invest it?"

Investing just before a market crash can lead to regret. However, holding cash in a rising market can be an expensive proposition, too. Sitting in cash while stocks rise can be disappointing in its own right. So what can an investor do to balance potential regret in a falling market against the potential for lower returns?

One strategy an investor might use to potentially limit timing risk is known as dollar cost averaging. Dollar cost averaging entails investing a large deposit over time in multiple installments. This strategy can help to limit regret in falling markets. By not investing the full lump sum immediately, the full portfolio is not exposed to market fluctuations until all installments are invested.

During rising markets, however, the strategy may have a cost to investors in the form of lower returns. Because the S&P 500 has returned 9.5 percent on average since 1928, investing into the market incrementally instead of being fully invested has tended to cost investors some of their return.

In a recent study, we tested dollar cost averaging strategies lasting between three and 24 months and found that they tend to underperform lump-sum investing on average. The longer the strategy lasted, the larger the average underperformance has been historically.

The average difference in return was as low as 0.7 percent for a three-month dollar cost averaging strategy to as much as 9 percent for a 24-month strategy. The full study can be found on our website, http://www.regentatlantic.com/media/pdf/Our%20Papers/DollarCostAveraging.pdf

So, the decision to invest incrementally is driven by the competing regrets of incurring market losses soon after making an investment versus being underinvested in a potential bull market. In determining what an investor would regret more, he or she should consider:

- *Risk tolerance* – A more risk-averse investor may find more comfort in investing incrementally.
- *Existing investment portfolio* – Is the entire portfolio getting invested today, or is a relatively small deposit being added to an existing portfolio?
- *Current market conditions* – A more volatile environment may trigger more regret risk for an investor, so dollar cost averaging may be helpful in managing regret.

Disclosure: Please remember that different types of investments involve varying degrees of risk, including the loss of money invested. Past performance may not be indicative of future results. Therefore, it should not be assumed that future performance of any specific investment or investment strategy, including the investments or investment strategies recommended or undertaken by RegentAtlantic Capital, LLC will be profitable.

Rental Property Reality Check

By Rick Kahler, CFP® Kahler Financial Group www.kahlerfinancial.com

Landlord. The very word implies wealth, authority, and status. Maybe that's one of the reasons there are so many books and seminars claiming to teach you how to build wealth by owning rental property.

Yes, you can get rich as a landlord. You can go broke, too. And in between those two extremes, you can find yourself dealing with leaking roofs, non-paying tenants, and economic downturns. The risks of building wealth with real estate are substantial. This is true whether you want to become the biggest property owner in town or merely buy a second home as a rental to help finance your retirement.

With real estate prices still low after the collapse of the housing bubble, and with the current low interest rates, it may be a great time to buy a second home. Before even considering such a purchase, though, here are some important points to consider:

1. Do you plan to eventually live in the house yourself? If so, buying it now and having a tenant pay the mortgage for you might be a great move. Still, you need to take many factors into consideration.
2. Will you need current income from the property? Then you'll need to be able to buy it without a mortgage. Otherwise, the mortgage and other expenses will eat up most of the rent payments, and you won't have any cash flow.
3. Do you have the time and skills to manage the property? Will you be able to do your own maintenance, or are you willing and able to spend the money to hire it done? Are you available to check out prospective tenants and show the property? A management company can relieve you of these hassles—for fees of about 10 percent of the rent.
4. Be realistic to the point of pessimism about your expected return. Assume that expenses—repairs, maintenance, taxes, and insurance—will be about 50 percent of the gross rental income. Always figure the income based on a property being vacant for several months of the year.
5. Be aware that a more expensive house won't necessarily provide a corresponding increase in rent. The rental market eventually tops out. If a $150,000 house rents for $800/month, a $350,000 house may only rent for about $1,400.
6. If your main reason for owning real estate is investment income, and you have a small amount of money or don't want the risk and management headaches of owning a house, a real estate investment trust (REIT) is often a wiser choice than owning real estate directly.
7. Be patient. If you over-buy an income property and try to get rich quick, you risk losing it all. I have rental properties in Rapid City, SD, and at one time when the area lost a number of military jobs, my rentals were sitting vacant. As I scrambled to make mortgage payments, it felt as if I didn't own my rental houses, they owned me. Right now, I have interests in companies that own paid-for rental property, but getting to that point took over 30 years.

The IRS classifies some income from rental property as "passive." Trust me, there's nothing passive about being a landlord.

Just like any other form of wealth-building, owning property requires education, good decision-making, an awareness of the risks, and plenty of effort.

Why You Should Never Take Financial Advice from Your Friends

By Linda Leitz, CFP®, EA, CDFA Pinnacle Financial Concepts, Inc. www.pinnaclefinancialconcepts.com

Many people are do-it-yourselfers when it comes to their finances. As a financial professional, I've seen people who are pretty good at it. Generally, I meet them when they come to me for a sanity check—a professional's review of whether or not they are on track for their goals. Always, there's something I can recommend that they didn't think of, and they appreciate receiving my input.

Unfortunately, some do-it-yourselfers are a mess—and their mess is compounded by the fact that they don't know that they're a mess. So your buddy who makes all his own financial decisions after reading (which may be giving him bad information) or who uses his own brand of logic (which may be illogical) may be unintentionally giving you bad advice.

Even if your friend is managing his or her finances effectively, there's another pitfall: Your friend's situation may be different from yours.

The point is that what your BFF from college is doing may be perfect for her, but doesn't fit you. Perhaps she earns more money than you do. Or less.

Maybe you and she have saved about the same amount for your investments, but her tax situation is much more complex than yours. Several years ago, I was proposing a tax credit to a prospective client. It was pretty complicated, and at some point as he was struggling with whether or not to utilize it, I told him I owned this same tax credit. That gave him lots of comfort, but I suddenly felt like it gave him a little too much comfort, so I told him that I was also wearing a red dress, but that the red dress wouldn't look good on him.

Financial advice isn't "one size fits all." So take the advice of your friends with caution. Get advice from a professional who's looking out for you—without their own agenda clouding that advice.

Get Ready for Jump-Start Your Retirement Plan Days in February 2013!

For the past seven years, NAPFA and the NAPFA Consumer Education Foundation have partnered with our friends at *Kiplinger's Personal Finance* magazine to provide a couple days of one-on-one financial advice to the public for free. These pro bono events have provided individuals with thousands of hours of advice on a wide range of personal finance issues, including retirement, taxes, estate planning, college funding, and so much more.

Our next events are planned for **February 7 and 12** and will be held exclusively online through web chats. The chats will run each day from 9 am to 5 pm (eastern time) and will feature four separate chat rooms. Each room will be dedicated to a specific focus, including:

- Saving for Retirement
- Income in Retirement
- Taxes in Retirement
- All Other Questions

During the chats, several members of NAPFA will be on hand to answer your questions — virtually. Just plan on visiting this page of the NAPFA website on those dates to participate!

www.NAPFA.org