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Summer was here until Spring returned. Still, it feels good to be warm and watch everything green up. So what if we feel like we're a month behind on our yard work instead of a month ahead!

Kate and I had a very relaxing vacation this month, spending a week with dear, long-time friends in the Savannah, GA area and are now looking forward to our big trip of the year, to France and Holland, beginning April 12 and consuming the rest of the month. Kate's never been to Europe and is very excited.

Portfolios are still gradually recovering with the market's slow recovery but we remain on the cusp of remaining invested in a number of categories. Don't be surprised if some positions are sold before we ultimately get fully reinvested.

Have a great April! Be advised that newsletters and reports may be a few days delayed next month due to our return home very late in the month.

Bruce Heling, CFP CPA

April 2012

HELING ASSOCIATES
Bringing the Personal to Financial Planning

THE PERSONAL PLANNER

Personal Financial Planning Tips for Today and the Rest of Your Life

Supercommittee Failure Sets Stage for Election Year Debate

As part of a last-minute agreement ending August's debt ceiling standoff, legislation was signed into law calling for the creation of a deficit reduction "supercommittee." The Joint Select Committee on Deficit Reduction, comprised of 12 members (6 Democrats and 6 Republicans) from both the House and Senate, was charged with finding ways to reduce the federal deficit by at least $1.2 trillion, and directed to report its findings by November 23, 2011. Of course, the outcome was well publicized--the committee announced that it was unable to reach a deal, and subsequently disbanded. Seen by many as the last best hope to reach a compromise, the committee's failure casts the debt ceiling as one of several major issues that will ultimately be addressed by the coming election.

Automatic cuts

Built into the legislation that gave birth to the supercommittee was a default provision--with the committee's failure to reach agreement, $1.2 trillion in broad-based spending cuts are automatically triggered over a nine-year period beginning in January 2013 (the term for this is "automatic sequestration"). The automatic cuts are split evenly between defense spending and non-defense spending. Although Social Security, Medicaid, and Medicare benefits are exempt, and cuts to Medicare provider payments cannot be more than 2%, most discretionary programs including education, transportation, and energy programs would be subject to the automatic cuts.

The threat of the automatic cuts was conceived as a way to encourage the supercommittee to reach a compromise. With the failure of the supercommittee to reach agreement, however, these imminent cuts are now the source of concern. Parties on both sides find the cuts too broad, and efforts to short-circuit the automatic cuts, at least those affecting defense spending, have already begun--though the President has suggested that he would veto any such legislation.

New debt ceiling crisis possible in 2013

The legislation that established the supercommittee also put in place what amounted to a piece of political theater that allowed for temporary, short-term incremental increases to the debt ceiling limit. Effectively, the President was able to get additional borrowing authority, while allowing Congress to go on record opposing it by voting for disapproval--but without really being able to prevent the debt ceiling increase from taking effect. The last debt-ceiling increase made under this legislation was calculated to carry us through the current election cycle. It might not be long after the election is decided, however, that the debt ceiling limit will again need to be addressed.

Same basic divide remains

The supercommittee failed in its mission because the parties involved have fundamentally different visions of how to address our country's debt problem. It's a gross oversimplification, but the debate largely boils down to what degree deficit reduction efforts should focus on increasing revenue (and how to accomplish that), or on reducing government spending, including addressing the long-term costs associated with entitlement programs such as Social Security, Medicare, and Medicaid.

Of course, these approaches aren't mutually exclusive; for example, the bipartisan Bowles-Simpson commission (the National Commission on Fiscal Responsibility and Reform) issued a December 2010 report that recommended a combination of both approaches. The fact that we're in an election year complicates matters, however, and may make compromise less likely, if not impossible. That's because each element of a potential compromise will have significant political ramifications. In the end, the course taken may depend entirely on the post-election political landscape.

Non-Equity Alternatives to Rock-Bottom Yields

Foreign bonds

Yields overseas can be attractive, and they don't necessarily involve investing in countries whose economies or governments are in flux. For example, as of late December, AAA-rated Australian sovereign bonds were paying 3.7%. However, remember that in addition to the risks involved with all bonds, such as interest rate risk, inflation risk, and credit risk, investing overseas involves currency risk; a change in the value of the U.S. dollar relative to its Australian counterpart could eliminate any yield advantage. Also, just as government-sponsored enterprise bonds are not necessarily backed by the full faith and credit of the U.S. Treasury, all foreign bonds are not necessarily backed by their sovereign governments.

Before investing in an MLP or mutual fund, make sure to carefully consider the objectives, risks, charges, and expenses contained in its prospectus, which is available from the fund or partnership. Read it carefully before investing.

As interest rates have fallen to record lows and stayed there in recent years, the yield on your savings may be stuck in neutral. If you've focused on capital preservation and kept your assets in U.S. Treasuries, a money market account, or certificates of deposit, you may have minimized the chance of the financial equivalent of a car crash. However, you also may not be happy letting your portfolio's engine idle forever.

Dividend-paying stocks are one solution, but last year's volatility has made many investors wary of committing more money to equities. Though past performance is no guarantee of future results, for those who need something more than 2% 10-year Treasury yields and who can handle the additional risks involved, there are other alternatives that could potentially boost overall yield.

Corporate bonds

Many corporations have taken the opportunity presented by low rates to refinance their corporate debt and lower borrowing costs. Though any company could still default on its obligations, of course, and all bonds face market risk, stronger balance sheets have helped lower the overall risk of corporates as a whole. The spread between the yield on Moody's Aaa-rated industrial bonds and 10-year Treasuries at the end of 2011 was roughly 2 percentage points. For a Baa bond (one notch above noninvestment-grade), the difference was over 3 percentage points. Yields on noninvestment-grade bonds (so-called high-yield or "junk" bonds) were higher still, roughly 5% above 10-year Treasuries.

Bank loans

Floating-rate bank loans (also known as senior loans, leveraged loans, or senior secured loans) are a form of short-term financing for companies that usually do not rate an investment-grade credit rating. The rate is typically tied to the London Interbank Offered Rate (LIBOR) and adjusts with it, generally quarterly. As with high-yield bonds, the lack of an investment-grade credit rating means bank loans must offer a higher yield.

As with all debt, investors still run the risk of default. However, bank loans also have benefitted from the favorable corporate finance picture noted above. And because bank loans typically are a company's most senior debt obligation and are secured by some form of collateral, investors have typically recovered a higher percentage of their investment in the event of default than with high-yield bonds secured only by a company's promise to pay.

Finally, as with all bonds, as bond yields rise, the price falls, which could cut overall return enough to offset any yield advantage. For the majority of investors, the most accessible way to invest in floating-rate bank loans is through a mutual fund or exchange-traded fund.

Master limited partnerships

Master limited partnerships (MLPs) can not only offer an income stream in the form of quarterly cash distributions; they also may offer tax benefits. An MLP that receives 90% of its income from qualified passive sources such as oil, natural gas, real estate, or commodities may qualify for tax treatment as a partnership rather than a corporation. If it does so, the MLP is not taxed at the partnership level, and may pass on a greater share of its earnings to the limited partners (i.e., individual investors), who also receive a proportionate share of any depreciation, depletion allowances, tax credits, and other tax deductions.

Many MLPs are managed so as to ensure that those tax benefits offset or eliminate any current tax liability on the cash distributions, which are considered a return of capital and used to adjust the individual partner's cost basis upon sale of the MLP units. An MLP that pursues this strategy successfully can in effect provide a tax-deferred ongoing income stream, which can be particularly appealing to investors in a high income tax bracket. Yields on MLPs vary greatly, depending on the particular MLP's assets and the way in which the general partner manages the business.

MLPs have risks. Because they can be relatively illiquid, an investor should plan to stay invested for a number of years, and individual investors' collective share of cash distributions may decrease over time. Also, the tax issues involved can be complex; for example, MLPs can create problems if held in a tax-deferred retirement account. Finally, commissions and other front-end costs can reduce the amount available for investment.

Data sources: *Corporate bond spreads: Federal Reserve System report on selected interest rates (H.15) as of December 29, 2011. Rates quoted are for Moody's Aaa- and Baa-rated bonds. High-yield bond spread: calculated based on Merrill Lynch High-Yield 100 as quoted on Wall Street Journal Market Data Center as of December 29, 2011.*

Women and Estate Planning

Statistically, women live longer than men, and women earn less money over their lifetimes than men.

They say men are from Mars and women are from Venus, but is this true when it comes to estate planning? Absolutely. And because women often find themselves in such different circumstances than men, it is even more crucial for them to educate themselves about estate planning, and consult an experienced estate planning professional.

Women tend to live longer than men

Women live an average of 4.9 years longer than men (Source: National Vital Statistics Report, Volume 59, Number 4, March 2011). That means women need their assets to last longer than men do. It also means that wives are probably going to outlive their husbands, so they will likely inherit their husbands' estates, and they will probably have the last word about the final disposition of assets going to the couple's heirs.

Women tend to earn less during their lives than men

Full-time working women earned only 81.2 cents for each dollar a man earned in 2010 (Source: Bureau of Labor Statistics, Women at Work report, March 2011). Further, women work fewer years than men in order to care for home and family, further reducing their ability to save (Source: GAO-04-35, October 31, 2003). Simply put, women earn less money over their lifetimes than men. This means that women must plan to make fewer dollars last longer. It's important that women get sound retirement planning advice.

Most custodial parents are women

Approximately 84% of custodial parents are women (Source: U.S. Census Bureau, Custodial Mothers and Fathers and Their Child Support report, November 2009). Women who are parents of young children need to plan for the continued care of those children if something unforseen should happen. They also need to determine who will handle the children's property until they are older.

Women are business owners

Women owned 7.8 million nonfarm U.S. businesses operating in the 50 states and the District of Columbia in 2007, an increase of 20.1% from 2002 (most recent statistic available) (Source: U.S. Census Bureau, Facts for Features article, January 26, 2011). Women who are business owners need to protect their assets, and plan for the succession of their businesses.

Women are professionals

Women make up 57.5% of professional and related occupations (Source: Bureau of Labor Statistics, Current Population Survey, Table 11, "Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity," 2010). Women in professions with high litigation risks, like medicine, law, and real estate, can benefit from asset protection planning.

Women are wealthy

Women control $14 trillion in assets (Source: Center for Women's Business Research, 2005) and three-fourths of the financial wealth in the United States (Source: womensvoicesforchange.org, July 21, 2011). It's important for women to get sound investment, charitable giving, and tax planning advice.

Creating an estate plan

Regardless of marital status or net worth, women should make important decisions and arrangements today in order to protect themselves, their husbands or partners, and other loved ones in case of incapacity or death.

To create an estate plan, women need to have at least a working knowledge of the estate planning tools that are available, which typically include:

- Will -- A will is a written directive that includes instructions about who is to settle the estate (the executor), how property is to be distributed to the heirs, and perhaps most importantly, who will raise the children. Dying without a will means that a probate court will distribute the estate, which might result in family problems and lawsuits. Wills should be reviewed at least every two years, and updated after significant life events such as a birth, death, divorce, or remarriage.
- Trust -- A trust is a legal entity where someone, known as the grantor, arranges with another person, known as the trustee, to hold property for the benefit of a third party, known as the beneficiary. The grantor names the beneficiary and trustee, and establishes the rules the trustee must follow in a document called a trust agreement.
- Durable Power of Attorney -- A durable power of attorney (DPOA) names family members or other trusted individuals to make financial decisions or transact business on behalf of the person executing the DPOA.
- Health-Care Directives -- Health-care directives are instructions about the medical care that would be wanted if conditions were such that the patient couldn't express his or her own wishes.

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Heling Associates, Inc. is a fee-only financial and investment advisory firm that has been providing financial planning, financial counseling, and portfolio management services since 1991. The firm is registered as an investment advisor with the Department of Financial Institutions of the State of Wisconsin. If you've been thinking about seeking help from an objective and professional financial advisor, we welcome your inquiry.

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What is an e-closing?

An "e-closing" refers to a real estate closing process where the parties to the transaction (e.g., sellers, buyers, brokers, and attorneys) can access closing documents online so that they can be reviewed and electronically signed prior to the actual closing date. And, instead of receiving a huge stack of papers, the parties get copies of pertinent documents on a CD or other media. Electronic closings can make the process easier, faster, and greener.

E-closings (as well as other paperless transactions) are possible for two reasons. First is the acceptance by federal law (under the Electronic Signatures in Global and National Commerce Act, or E-SIGN) of electronic signatures in lieu of pen and ink (or wet) signatures. Second, new technology is being offered by several companies that allows for a safe, secure, and password-protected process that prepares, transmits, and stores legally binding documents, such as disclosures, loan instruments, and settlement statements. For example, members of the mortgage finance industry (including Freddie Mac) are implementing this technology because it can save time, money, and trees.

E-closings allow the parties to review documents beforehand, facilitating communication among the parties, and reducing the chance of mistakes or other problems on closing day. Once all of the documents have been approved, the parties affix their signatures through a digital pad or stamp, or other device that automatically encrypts it so that it can't be altered. Each party signs once, and the captured signature is automatically applied to all the signature blocks (so, no more hand cramps or scribbled signatures). Documents that require a witness and/or notary can also be signed electronically.

If all goes well, the parties may not even need to actually meet on closing day. Deeds and mortgages can be sent electronically to the proper registry for recording. Any disbursements can also be made electronically. And finally, the documents can be digitally archived for future use.

My office has gone paperless. How do I go paperless at home?

Since the start of the computer age, business offices have been going paperless because it saves time, space, and money; it's easier to stay organized; and there's less impact on the environment. So, how can you go paperless at home? Here are some tips.

First, though it may seem overwhelming, start slowly making easy changes that will move you towards less and less paper.

First arrange to get your bills electronically, and pay them online. Set up automatic payments with your bank for recurring payments, or consider a bill-paying service. Otherwise, you may need to create a system reminding yourself to pay bills on time so that you don't incur past due fees or interest charges.

Sort through your existing paper. Scan all documents you need to keep and save to PDF. Make sure to name your e-files so they're easily identifiable and accessible, and keep them well-organized. Shred (and recycle) documents you do not need to keep, especially if they show personal information, such as account numbers or your Social Security number. Invest in a good scanner and shredder.

Keep your e-files safe and secure by adding a firewall and using software that provides adequate security. Back up your computer at least once a month using a CD, external hard drive, or an online remote back-up service (i.e., in the "cloud"). Use logins and passwords that are secure, and try to suppress the urge to repeat them. There are online tools that store this type of information.

Keep things like calendars, address books, recipes, and photos digitally. Toss things you tend to keep for sentimental reasons, like holiday cards and ticket stubs. Purge magazines, newspapers, journals, and books from time to time, and get them online if possible.

Contact senders of junk mail and catalogs you don't want and ask them to remove your name from their mailing list. They may not do it, but you can try.

Remember, though, there are paper files you should keep, such as medical records, Social Security cards, warranties and manuals, and tax, legal, and insurance documents. Keep these vital records in one safe location.