THE PERSONAL PLANNER

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

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Greetings! I'm back from my week-long mission trip to Tegucigalpa, Honduras and can report that it was an exhausting but rewarding week and the temperatures in the upper 70s to mid 80s were a welcome respite from our frigid weather here.

January has been a more volatile month in the markets than we've become accustomed to lately and it would appear that we'll end the month with small losses in most client portfolios, something that is not totally unexpected given the strength of the markets througout 2013. Of course, I'll be keeping my eye on things and moving further to the sidelines in accord with our Active Portfolio Risk Management strategy if indicated.

Stay warm and have a wonderful February!

Bruce Heling, CFP CPA

February 2014

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Bringing the Personal to Financial Planning

The Frugal Habits of Millionaires

The word "millionaire" typically conjures up images of a lavish, jet-setting lifestyle, but behind the scenes, that may not always be the case. Like Warren Buffett, who famously still lives in the relatively modest house in Omaha, Nebraska, that he bought in 1958 for $31,500, many millionaires (and billionaires) live a modest, if not downright frugal lifestyle--a lifestyle that may have helped them become millionaires in the first place.

We've all heard the saying "It takes money to make money." So how can you find extra dollars to save and invest? If you're looking to improve your financial position, consider putting some of these habits into practice.

Cultivate a frugal mindset

Many people equate being frugal with being cheap, but that's not really correct. Being frugal means carefully watching your dollars and not spending more than you need to--a trait many millionaires employ. To help cultivate a frugal mindset, get in the habit of asking yourself this question: "With a little extra effort and/or sacrifice on my part, is there any way I can save money here?" Having a frugal mindset can really help when it comes time to playing the role of American consumer, where temptation is everywhere.

Buy wisely and sparingly

We all need "stuff" now and then; the key is not overdoing it or overpaying for it. Try to buy mostly what you really need, not what you really want. Money you save can then be used to build your savings and investment accounts.

Don't let the price tag of your car, home, or designer suit define your character. For example, a reliable car that safely gets you from Point A to Point B may be completely sufficient for your needs. According to the book *The Millionaire Next Door,* the top car brand among millionaires is Toyota, not Mercedes or BMW. Even Mark Zuckerberg, the billionaire founder of Facebook, has been spotted driving an Acura TSX, an entry-level luxury car whose base price is about $30,000. The bottom line? As you move up the net worth ladder, avoid the temptation to elevate your "status" by overspending on luxury goods.

You can be smart about everyday consumer purchases, too. You might be surprised to learn that many millionaires clip coupons, buy in bulk, wait for sales, scour eBay and Craigslist for deals, limit clothing purchases, fly coach, avoid credit cards, and save half their restaurant meal for lunch the next day--habits that can free up cash for the occasional splurge.

Shun debt

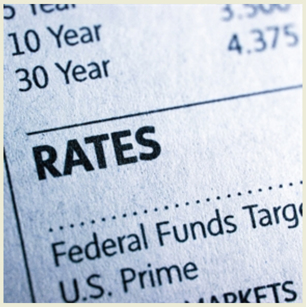
Debt is bad. Well, mostly. At times taking on debt is necessary, for example when buying a home or attending college, because without it, many people won't have saved enough money. But generally speaking, you should be leery of taking on debt for things that cause you to live beyond your means. Remember, every dollar you borrow today is a dollar you'll have to pay back tomorrow, with interest.

People who turn a modest financial base into wealth often do so by living frugally, saving regularly, investing wisely, and avoiding debt. By contrast, people who end up in a perpetual cycle of debt are often those who spend and borrow excessively to support an unsustainable lifestyle.

Take action

What do CEOs Tim Cook (Apple), Ursula Burns (Xerox), Robert Iger (Disney), and Indra Nooyi (PepsiCo) have in common? They're all up by 5:00 a.m., hitting the gym, reading, working. As Benjamin Franklin famously quipped: "Early to bed and early to rise makes a man healthy, wealthy, and wise." And indeed, many millionaires and leaders aren't couch potatoes. They don't sit around waiting for things to happen; they make things happen--by getting up early, working hard, looking for opportunities, constantly educating themselves, taking calculated risks, networking, staying active, and generally trying to improve themselves day in and day out. And with the explosion of information online 24/7, learning new things has never been easier.

Don't forget that some savings or investment vehicles, such as bank savings accounts, may benefit from rising interest rates.



Before investing in a mutual fund, carefully consider its investment objectives, risks, expenses, and fees, which can be found in the prospectus available from the fund. Read the prospectus carefully before investing.

Bonds vs. Bond Funds: Which Is Better When Interest Rates Rise?

The Federal Reserve has said it expects to begin raising its target rate sometime in 2014. Since bond prices fall when interest rates rise, it may be a good time to pay increased attention to any fixed-income investments you have. Here are some factors to consider when you review your portfolio.

Maturity dates and duration

One way to address the threat of rising rates is through maturity dates. Long-term bonds may pay a higher coupon rate than short-term bonds, but when rates rise, long-term bond values typically suffer more. That's because investors may be reluctant to tie up their money for long periods if they expect a bond's interest payments may suffer by comparison when newer bonds that pay higher rates are issued. The later a bond's maturity date, the greater the risk that its yield eventually will be surpassed by that of newer bonds.

A bond fund doesn't have a maturity date, and your shares may be worth more or less than you paid for them when you sell. However, there is another way to gauge the sensitivity of either a bond or a bond fund to interest rates: its duration, which takes into account not only maturity but also the value of future interest payments. The longer the duration, the more sensitive a security is to interest rate changes.

To estimate the impact of a rate change, simply multiply a security's duration by the percentage change in interest rates. For example, if interest rates rise by 1%, a bond or bond fund with a duration of 3 years could be expected to lose roughly 3% in value, while one with a 7-year duration might fall by 7%. (Though interest rates currently have little room to fall, the same principle would apply; a 1% decline in rates should result in a 3% gain for a bond fund with a 3-year duration.) Though this hypothetical example doesn't represent the return of any specific investment, you can apply the general principle to your own holdings.

Diversification

Since rising rates affect most bonds, diversification provides only limited protection against rate increases. To balance yields with the threat of rising rates, you can diversify across various segments of the bond market (for example, investment-grade corporate, high-yield, Treasuries, foreign, short/intermediate/long-term, and municipal debt). Bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types can mean that some categories are under- or over-valued compared to others. Funds may offer greater diversification within each segment at a lower cost than individual bonds, providing greater protection against the impact of a potential default by a single issuer. However, diversification alone doesn't ensure a profit or prevent the possibility of loss, including loss of principal.

Flexibility

Holding individual bonds allows you to sell a specific bond on your own timetable or hold it until it matures. That flexibility has two advantages. First, if you hold to maturity, unless a bond's issuer defaults, you know how much you'll receive when the principal is repaid. Rising interest rates may cause a bond's market value to fluctuate in the meantime, but if you hold it to maturity, that fluctuation may not be an issue for you, especially if predictable income is your highest priority.

Second, it can help you manage your tax liability; if a specific bond has lost value, you can sell it and declare the loss on your federal income tax return. You may be able to instruct your broker to sell specific shares of a bond fund to harvest losses for tax purposes, but in general it's more challenging to manage tax liability as precisely with bond funds. For example, capital gains or losses generated by a fund manager's trading are passed through to individual shareholders each year, which can affect your tax liability. Also, a bond fund's value can be affected by your fellow investors. Since an open-end fund must redeem investors' shares daily, strong selling can force a fund to sell holdings to meet redemption demands, which can have implications for other shareholders.

Laddering individual bonds also can help provide flexibility to adjust to rising rates. Laddering involves buying a portfolio of bonds with varying maturities; for example, a five-bond portfolio might be structured so that one of the five matures each year for the next five years. As interest rates rise, each bond that matures can be reinvested in a newer instrument that offers a higher yield.

Liquidity

A mutual fund will redeem your shares at the end of every business day. An individual bond traded on the open market may not have the same liquidity, and you could have difficulty finding a buyer who's willing to pay the asking price. However, individual bonds are priced and traded throughout the day; only closed-end funds and exchange-traded funds have that flexibility, not open-end mutual funds.

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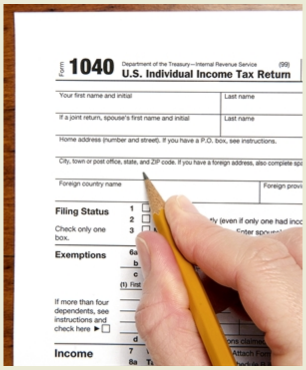
Filing Your 2013 Federal Income Tax Return



2013 is the last year to take advantage of:

- *Increased Internal Revenue Code (IRC) Section 179 expense limits ($500,000 maximum amount decreases to $25,000 in 2014) and "bonus" depreciation provisions*
- *The $250 above-the-line tax deduction for educator classroom expenses*
- *The ability to deduct mortgage insurance premiums as qualified residence interest*
- *The ability to deduct state and local sales tax in lieu of the itemized deduction for state and local income tax*
- *The deduction for qualified higher education expenses*
- *Qualified charitable distributions (QCDs), allowing individuals age 70½ or older to make distributions of up to $100,000 from an IRA directly to a qualified charity (distributions are excluded from income and count toward satisfying any required minimum distributions (RMDs) for the year)*

For most people, the due date for filing a 2013 federal income tax return is April 15, 2014. Here are a few things to keep in mind this filing season.

Lots of changes to consider

While most individuals will pay taxes based on the same federal income tax rate brackets that applied for 2012, a new 39.6% federal income tax rate applies for 2013 if your taxable income exceeds $400,000 ($450,000 if you're married filing jointly, $225,000 if married filing separately). If your income crosses that threshold, you'll also find that a new 20% maximum tax rate on long-term capital gain and qualifying dividends now generally applies (in prior years, the maximum rate was generally 15%).

You may also need to account for new taxes that took effect in 2013. If your wages exceeded $200,000 in 2013, you were subject to an additional 0.9% Medicare payroll tax--if the tax applied, you probably noticed the additional tax withheld from your paycheck. If you're married and file a joint tax return, the additional tax kicks in once the combined wages of you and your spouse exceed $250,000 (if you're married and file separate returns, the tax kicks in once your wages exceed $125,000). One thing to note is that the amount withheld may not accurately reflect the tax owed. That's because your employer calculates the withholding without regard to your filing status, or any other wages or self-employment income you may have received during the year. As a result, you may end up being entitled to a credit, or owing additional tax, when you do the calculations on your return.

And, if your adjusted gross income (AGI) exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately), some or all of your net investment income may be subject to a 3.8% additional Medicare contribution tax on unearned income. Additionally, high-income taxpayers (e.g., individuals with AGIs greater than $250,000, married couples filing jointly with AGIs exceeding $300,000) may be surprised to see new limitations on itemized deductions, and a possible phaseout of personal and dependency exemptions.

New home office deduction rules

If you qualify to claim a home office deduction, starting with the 2013 tax year you can elect to use a new simplified calculation method. Under this optional method, instead of determining and allocating actual expenses, you simply multiply the square footage of your home office by $5. There's a cap of 300 square feet, so the maximum deduction you can claim under this method is $1,500. Not everyone can use the optional method, and there are some potential disadvantages, but for many the new simplified calculation method will be a welcome alternative.

Same-sex married couples

Same-sex couples legally married in jurisdictions that recognize same-sex marriage will be treated as married for all federal income tax purposes, even if the couple lives in a state that does not recognize same-sex marriage. If this applies to you, and you were legally married on December 31, 2013, you'll generally have to file your 2013 federal income tax return as a married couple--either married filing jointly, or married filing separately. This affects only your federal income tax return, however--make sure you understand your state's income tax filing requirements.

2013 IRA contributions--still time

You generally have until April 15 to contribute up to $5,500 ($6,500 if you're age 50 or older) to a traditional or Roth IRA for 2013. With a traditional IRA, you may be able to deduct your contribution (if you or your spouse are covered by an employer plan, your ability to deduct some or all of your contribution depends on your filing status and income). If you make contributions to a Roth IRA (your ability to contribute depends on your filing status and income) there's no immediate tax benefit, but qualified distributions you take in the future are completely free from federal income tax.

Filing for an extension

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.* Filing this extension gives you an additional six months (to October 15, 2014) to file your return. Don't make the mistake, though, of assuming that the extension gives you additional time to pay any taxes due. If you don't pay any taxes owed by April 15, 2014, you'll owe interest on the tax due, and you may owe penalties as well. Note that special rules apply if you're living outside the country or serving in the military outside the country on April 15, 2014.

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Are you ready to retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?

It's obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off of your retirement savings. The average American can expect to live past age 78. (Source: CDC, "Deaths: Preliminary Data for 2011") With future medical breakthroughs likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?

You can begin receiving Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

How will retirement affect your IRAs and employer retirement plans?

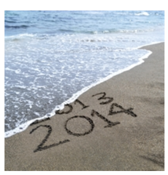
The longer you delay retirement, the longer you can build up tax-deferred funds in your IRAs--remember that you need compensation to contribute to an IRA. You'll also have a longer period of time to contribute to employer sponsored plans like 401(k)s--and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not yet fully vested.)

Will you need health insurance?

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or a private individual policy--which could be an expensive proposition.

Is phasing into retirement right for you?

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.



How much can I contribute to my IRA in 2014?

The amount you can contribute to your traditional or Roth IRA remains $5,500 for 2014, $6,500 if you're 50 or older. You can contribute to an IRA in addition to an employer-sponsored retirement plan like a 401(k). But if you (or your spouse) participate in an employer-sponsored plan, the amount of traditional IRA contributions you can deduct may be reduced or eliminated (phased out), depending on your modified adjusted gross income (MAGI). Your ability to make annual Roth contributions may also be phased out, depending on your MAGI. These income limits (phaseout ranges) have increased for 2014:

Income phaseout range for deductibility of traditional IRA contributions in 2014	
1. Covered by an employer-sponsored plan and filing as:	
Single/Head of household	$60,000 - $70,000
Married filing jointly	$96,000 - $116,000
Married filing separately	$0 - $10,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	$181,000 - $191,000

Income phaseout range for ability to fund a Roth IRA in 2014	
Single/Head of household	$114,000 - $129,000
Married filing jointly	$181,000 - $191,000
Married filing separately	$0 - $10,000