THE PERSONAL PLANNER

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

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Welcome to the brave new world of 2016. Or perhaps it will merely be more of the same. It's kind of awesome to sit at the doorway to a whole new year and contemplate what is likely going to happen in the next 12 months, not the least of which is that at this time next year we will be preparing to inaugurate a new US President. The other thing that we know for sure is that the campaign for that office will dominate the news for the next 10 months.

What else might change? We can't know. We can only know that many things will and, in spite of that, life on New Year's Day 2017 is likely to look very familiar to us. All we can ever do is strive to use the days, weeks, and months ahead to make the world a little bit better place than it is today. So go enjoy the year and make a difference!

Bruce Heling, CFP CPA
January 1, 2016

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Assessing Portfolio Performance: Choose Your Benchmarks Wisely

You can't help but hear about the frequent ups and downs of the Dow Jones Industrial Average or the S&P 500 index. The performance of both major indexes is widely reported and analyzed in detail by financial news outlets around the nation.

Like the Dow, the S&P 500 tracks the stocks of large domestic companies. With 500 stocks compared to the Dow's 30, the S&P 500 comprises a much broader segment of the stock market and is considered to be representative of U.S. stocks in general. Both indexes are generally useful tools for tracking stock market trends, but some investors mistakenly think of them as benchmarks for how well their own portfolios should be doing.

However, it doesn't make much sense to compare a broadly diversified, multi-asset portfolio to just one of its own components. Expecting portfolio returns to meet or beat "the market" is usually unrealistic, unless you are willing to expose 100% of your life savings to the risk and volatility associated with stock investments.

Asset allocation: It's personal

Just about every financial market in the world is tracked by one or more indexes that investors can use to look at current and historical performance. In fact, there are hundreds of indexes based on a wide variety of asset classes (stocks/bonds), market segments (large/small cap), and styles (growth/value).

Investor portfolios are typically divided among asset classes that tend to perform differently under different market conditions. An appropriate mix of stocks, bonds, and other investments depends on the investor's age, risk tolerance, and financial goals.

Consequently, there may or may not be a single benchmark that matches your actual holdings and the composition of your individual portfolio. It could take a combination of several benchmarks to provide a meaningful performance picture.

Keep the proper perspective

Seasoned investors understand that short-term results may have little to do with the effectiveness of a long-term investment strategy. Even so, the desire to become a more disciplined investor is often tested by the arrival of quarterly or annual financial statements.

The main problem with making decisions based on last year's performance figures is that asset classes, market segments, or industries that do well during one period don't always continue to perform as well. When an investment experiences dramatic upside performance, it may mean that much of the opportunity for market gains has already passed. Conversely, moving out of an investment when it has a down year could mean you are no longer in a position to benefit when that segment starts to recover.

On the other hand, portfolios that are left unattended may drift and begin to take on too much risk or become too conservative. Rebalancing periodically could help bring your asset mix back in line with your preferred allocation.

There's really nothing you can do about global economic conditions or the level of returns delivered by the financial markets, but you can control the composition of your portfolio. Evaluating investment results through the correct lens may help you make appropriate adjustments and effectively plan for the future.

Note: *Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security, and individuals cannot invest directly in an index. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments that seek a higher return tend to involve greater risk. Rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.*

See disclaimer on final page

Are There Gaps in Your Insurance Coverage?

If you own a condo, your association's property insurance may leave gaps in coverage. For example, most association insurance doesn't cover your furniture, wall coverings, electronics, interior walls, and structural improvements made to the interior of your unit. Review your condo documents, particularly the association's master deed, its by-laws, rules and regulations, which may describe those parts of your unit the association insurance covers, and which parts you may need to insure.

Buying insurance is about sharing or shifting risk. For example, health insurance will cover some of the cost of medical care. Homeowners insurance will assume some of the risk of loss in the event your home is damaged or destroyed. But oftentimes we think we're covered for specific losses when, in fact, we're not. Here are some common coverage gaps to consider when reviewing your own insurance coverage.

Life insurance

In general, you want to have enough life insurance coverage (when coupled with savings and income) to allow your family to continue living the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, changing jobs could affect your insurance coverage. You may not have the same amount of insurance, or the policy provisions may differ. Whereas your prior employer may have provided permanent life insurance, now you may have term insurance that will expire on a predetermined date. Review your income, savings, and expenses annually and compare them to your insurance coverage, and be mindful that changing circumstances may require a change in the amount of insurance coverage.

Homeowners insurance

It's not always clear from reading your homeowners policy which perils are covered and how much damage will be paid for. It's important to know what your homeowners policy covers and, more important, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases by separate insurance policies altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and how long it will pay for temporary housing while repairs are made.

To avoid these gaps in coverage, review your policy annually with your insurer. Also, pay attention to notices you may receive. What may look like boilerplate language could actually be significant changes to your coverage. Don't rely on your interpretations--seek an explanation from your insurer or agent.

Auto insurance

Which drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you, but it's not always clear-cut. For instance, a child who is living in a college dorm is probably covered, but a child who lives in an off-campus apartment might be excluded from coverage. If you and your spouse divorce, which policy insures your children, particularly if they are living with each parent at different times of the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged cell phones or other electronic devices. Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

In fact, insurance coverage for rental cars may also pose a problem. For instance, your own collision coverage may apply to the rental car you're driving, but it may not pay for all the damage alleged by a rental company, such as loss of use charges. If you're leasing a car long term, your policy may cover the replacement cost only if the car is a total loss or is stolen. But that amount may not be enough to pay for the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always easily understood, and you may not be sure what's covered until it's time to file a claim. So review your insurance policy to be sure you've filled all the gaps in your coverage.

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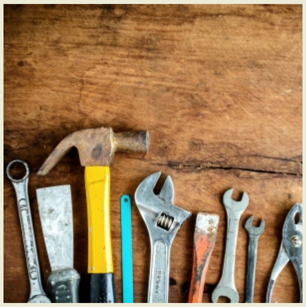
What to Know About Buying a Fixer-Upper



If you install certain energy-efficient equipment in your home, you may be eligible for a tax credit.

The residential energy efficient property credit (available through 2016) can be claimed for 30% of the cost of specific energy-efficient equipment that you install in your home. This equipment includes solar electric items, solar water heaters, wind turbines, geothermal heat pumps, and fuel cell property.

See IRS Tax Tip 2015-38 for more information.

Buying a fixer-upper property has become popularized thanks to home improvement shows. But buying a fixer-upper--either to keep or resell--isn't just for TV.

Why purchase a fixer-upper?

There are many reasons to consider purchasing a fixer-upper, such as:

- Profit potential--If you choose to rent or sell the home, you have an opportunity to earn an income or make a profit.
- Build equity--If you plan to occupy the home, you can build equity over time and eventually pass the home to family members.
- Reduced competition--Buyers may be reluctant to purchase properties that require extensive renovations. A smaller competition pool may increase your chances of acquiring the property at a lower cost.

Because there are many potential benefits to buying a fixer-upper, it's important to understand the process and the potential problems that can come with it.

Location, location, location

Location is key when purchasing any piece of real estate. Look for properties in desirable areas or where property values are on the rise. The renovations needed could elevate the home to the level of the neighboring houses. Updating a home in an undesirable neighborhood may leave you with a property that costs more to renovate than you would make by reselling it.

What about foreclosures?

Purchasing foreclosed properties has become increasingly popular for those looking to profit from real estate; however, buying bank-owned property can come with many possible drawbacks. In many instances, homes owned by a bank cannot be fully inspected prior to purchase, and the bank may be unable to provide information on the condition of the home. This can lead to some unwelcome surprises when you finally get to see the property you've purchased. When purchasing a foreclosed home, anticipate some setbacks and create a contingency reserve for unforeseen costs.

Easy vs. expensive fixes

Whether you're planning to do the work yourself or hire an expert, you need to know how difficult, time-consuming, and expensive the improvements will be.

Easy fixes include painting walls, removing wallpaper, replacing light fixtures and fans, and refinishing floors. More expensive fixes include replacing a roof, plumbing, electrical, or windows; an extensive kitchen or bath remodel; and replacing HVAC systems or adding central air.

Some renovations add more value to the home than others. When making renovation decisions, consider both the estimated cost and the home's projected resale value. Less expensive renovations may generate a higher profit margin, while more expensive renovations might leave you with a minimum return on the money you spent.

Tax consequences

While renovations are one of the most important (and exciting) aspects of owning a fixer-upper, also consider the potential tax consequences that come with buying any piece of real estate. The tax implications will vary depending on whether you live in the home, rent it out, sell it right away, or hold on to it for a while for resale. Talk to your tax professional to learn more about the tax consequences for your specific situation.

Financing your fixer-upper

Both the Federal Housing Administration (FHA) and Fannie Mae offer loan programs specifically for people renovating a home.

The FHA 203(k) Rehab Loan is a government-funded loan that can help you finance both the purchase of the home and the projected cost of renovations in one mortgage. This loan program is limited to the rehabilitation of homes that will be owner occupied, and therefore might be a good option if you want to invest in a fixer-upper that will stay in your family. (Source: U.S. Department of Housing and Urban Development, 203(k) Rehab Mortgage Insurance)

Unlike 203(k) loans, the Fannie Mae HomeStyle Loan is not limited to the renovation of homes that will be owner occupied; therefore, this loan program can be used by homebuyers who wish to renovate a fixer-upper into a vacation home or rental property. There are no restrictions on the types of repairs allowed except that all repairs must be on the property and must add value to the home. (Source: Fannie Mae HomeStyle Renovation Mortgage Fact Sheet, August 2014)

For more information on both loans, visit hud.gov and fanniemae.com.

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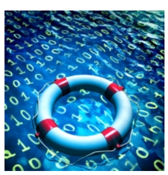
I'm thinking about storing financial documents in the cloud. What should I know?

Cloud storage--using Internet-based service providers to store digital assets such as books, music, videos, photos, and even important documents including financial statements and contracts--has become increasingly popular in recent years. But is it right for you?

Opinions vary on whether to store your most sensitive information in the cloud. While some experts say you should physically store items you're not willing to lose or expose publicly, others contend that high-security cloud options are available.

If you're thinking about cloud storage for your financial documents, consider the following:

- Evaluate the provider's reputation. Is the service well known, well tested, and well reviewed by information security experts?
- Consider the provider's own security and redundancy procedures. Look for such features as two-factor authentication and complex password requirements. Does it have copies of your data on servers at multiple geographic locations, so that a disaster in one area won't result in an irretrievable loss of data?
- Review the provider's service agreement and terms and conditions. Make sure you understand how your data will be protected and what recourse you have in the event of a breach or loss. Also understand what happens when you delete a file--will it be completely removed from all servers? In the event a government subpoena is issued, must the service provider hand over the data?
- Consider encryption processes, which prevent access to your data without your personal password (including access by people who work for the service provider). Will you be using a browser or app that provides for data encryption during transfer? And once your data is stored on the cloud servers, will it continue to be encrypted?
- Make sure you have a complex system for creating passwords and never share your passwords with anyone.



What's the best way to back up my digital information?

In writing or speaking, redundancy is typically not recommended unless you're really trying to drive a point home. When it comes to your digital life, however, redundancy is not only recommended, it's critical.

Redundancy is the term used to refer to data backups. If you have digital assets that you don't want to risk losing forever--including photos, videos, original recordings, financial documents, and other materials--you'll want to be sure to back them up regularly. And it's not just materials on your personal computer, but your mobile devices as well. Depending on how much you use your devices, you may want to back them up as frequently as every few days.

A good rule to follow is the 3-2-1 rule. This rule helps reduce the risk that any one event--such as a fire, theft, or hack--will destroy or compromise both your primary data and all your backups.

1. Have at least three copies of your data. This means a minimum of the original plus two backups. In the world of computer redundancy, more is definitely better.
2. Use at least two different formats. For example, you might have one copy on an external hard drive and another on a flash drive, or one copy on a flash drive and another using a cloud-based service.
3. Ensure that at least one backup copy is stored offsite. You could store your external hard drive in a safe-deposit box or at a trusted friend or family member's house. Cloud storage is also considered offsite.

If a cloud service is one of your backup tactics, be sure to review carefully its policies and procedures for security and backup of its servers. Another good idea is to encrypt (that is, create strong passwords that only you know) to protect sensitive documents and your external drives.

So at the risk of sounding redundant (or driving the point home?), a good rule for data backup is to have at least three copies on at least two different formats, with at least one copy stored offsite. And more is always better.