



YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Portfolio Repair Strategy: What You Can Do Now

In the current bear market, many investors have learned a compelling lesson: It's impossible to control events in the financial markets, but we can control how we react to them. In that spirit, it may be time to focus on portfolio repair strategies that may help you pursue longer-term financial goals.

Divorce and Your Finances

Protecting your financial health during a divorce is crucial and no one should enter the process without an understanding of the laws that shape divorce proceedings and the impact they can have on your assets.

Personal Debt: How Much Is Too Much?

It has been difficult to watch television or read a news item recently without seeing a reference to the "credit crunch." If credit is indeed a key element of the current bear market and recession, it may be worthwhile to explore how much debt your household can manage while continuing to pursue longer-term financial goals.

Caring for Your Aging Parents

Many baby boomers find that their aging parents need health care assistance. Luckily, there are options to help parents grow old gracefully, either in their own home or in a facility, and several ways that you can finance the cost of their care.

Life Insurance Can Help Ensure Business Continuity

When business owners plan for surviving a change of ownership or the loss of a key employee, they frequently incorporate life insurance as part of the process.



Portfolio Repair Strategy: What You Can Do Now

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Reassess Your Risk Tolerance -- Your reaction to single-digit declines in the value of your portfolio may provide a clue as to your feelings about risk. If relatively small drops leave you feeling anxious, consider this reaction when making decisions about how to invest. Stocks historically have experienced short-term ups and downs, and this volatility is likely to affect your investments if you own stock or stock funds.¹ Although volatility on the downside can be unsettling, keep in mind that missing out on stock market rallies could cause your portfolio to forfeit growth over the long term.

Rebalance Your Investment Mix -- As part of your risk assessment, review your mix of stock, bond, and cash investments. Many investors strive to maintain a target mix that can help balance their exposure to risk and return. If you have not changed your investment mix since the beginning of the current bear market -- which started in October 2007 -- you may find that movements in the financial markets have caused your investment mix to drift significantly from your target allocation. It may be time to rebalance, which entails adding to positions that have declined in value and reducing your exposure to investments that exceed your target allocation. It may sound counterintuitive to add to positions that have gone down, but rebalancing provides a framework for buying when prices are low, which may enhance your chances of long-term returns.

Consider How Much You Need to Invest for Long-Term Goals -- Many investors, especially those who plan to retire within a decade or less, have been affected by losses in their portfolios. If you are approaching retirement, you may need to reassess how much you need to invest on an annual basis, and how much longer you need to continue working, to replenish your retirement nest egg. You may need to undergo a similar analysis if you are investing for another goal, such as funding a college education. Your financial advisor can help you identify tax-advantaged accounts for retirement and college savings.

Evaluate Both Growth and Income When Selecting Investments -- During the current bear market, many investors learned that capital appreciation cannot be taken for granted. You may want to make sure that your portfolio includes some investments that generate income. Examples may include dividend-paying stocks, bonds, or mutual funds that invest in them. When evaluating bonds or bond funds, remember to diversify according to sector and maturity.

Determine Whether You Can Reduce Spending to Fund an Investment Plan -- You may find that you can cut expenses in areas that will not significantly impact the quality of your life. Consider how much you spend on unused memberships, premium cable channels you never or rarely watch, or services (such as house cleaning or yard work) that you could do yourself. In addition, paying off a small credit card balance or loan could result in a savings on interest payments over time, with the savings applied to an ongoing investment plan.

There are no guarantees in the world of investing, but these and other strategies may help you focus on the future and make a renewed commitment to long-term financial goals.

¹Source: Standard & Poor's. Stocks are represented by the S&P 500, volatility by standard deviation. For the 30-year period ending December 31, 2008. Past performance does not guarantee future results.



Divorce and Your Finances

Protecting your financial health during a divorce is crucial and no one should enter the process without an understanding of the laws that shape divorce proceedings and the impact they can have on your assets.

Dividing the Assets

Typically, everything you and your spouse acquired from the day you were married is subject to division. The exceptions are individual inheritances, gifts to an individual spouse and assets acquired before marriage. When assets are divided, the court considers each spouse's earning potential, the length of the marriage, and each spouse's contribution to building household assets.

There is, however, one important exception. Within the nine community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin) almost all assets typically are divided equally.

Dealing with Debt

If you live in a community property state, you will be responsible for half of all debt in jointly held accounts and, in some cases, for half of a spouse's individual debt as well. If you don't live in a community property state, you remain responsible for your individual debt (but not your spouse's) and any debt in jointly held accounts. As soon as the divorce is finalized, freeze your joint accounts and ask your creditors to reclassify them as individual accounts.

In addition, include the payment of debt as part of the settlement. Take on the responsibility for the debt yourself, if necessary, and take a share of the assets to pay the debt down.

Your Retirement Assets

Money in your 401(k) or pension plan may legally be divided during a divorce. The divisible amount typically begins to accumulate on the day you are married and ends on the day you are divorced.

To claim a share of a spouse's 401(k) or pension benefit, you need to obtain a court order called a Qualified Domestic Relations Order (QDRO) and provide it to your spouse's plan sponsor before distributions are completed to your spouse, which prevents your spouse from making withdrawals. You and your spouse can decide to not divide your 401(k) assets or pension plan benefits, but you should make this agreement in writing and include it as part of the settlement to prevent the courts from declaring the money divisible.

If you find yourself faced with divorce, it is essential to protect your financial future. Enlisting the help of an attorney and carefully monitoring the process can ensure that your interests are considered and that you won't need to revisit the proceeding later on.

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Personal Debt: How Much Is Too Much?

For most of the last two years, it has been difficult to watch television or read a news item without seeing a reference to the "credit crunch." If credit is indeed a key element of the current bear market and recession, it may be worthwhile to explore how much debt a typical household can manage while continuing to pursue longer-term financial goals.

For many households, a mortgage is the biggest ongoing debt payment. When deciding how much of a mortgage a household can afford, it's helpful to review guidelines that lenders historically have followed when evaluating applicants for prime mortgages. These criteria have included, among others, fixed housing expenses (mortgage payment, insurance, and property taxes) that do not exceed 25% of gross monthly income and a total debt-to-income ratio of 36% or less.¹ The 36% ratio includes all debt payments, such as auto loans, college loans, credit card balances, and others.

Long-Term Planning

It's important to structure your debt in such a way that you can continue making payments if your financial situation, including your employment status, changes over time. Many homeowners, as part of the mortgage application process, evaluate the benefits and drawbacks of fixed versus variable rate mortgages. Variable interest payments, which frequently are lower early in the life of a mortgage and escalate later on, could leave you exposed to higher interest payments when you may not be able to afford them. Fixed payments, which may cost more over the life of the mortgage, may make it easier to budget your debt payments over time.

Another factor in determining the affordability of your debt is the stability of your income. If your household has one or more steady wage earners, you may feel comfortable with a debt-to-income ratio that approaches the 36%. In contrast, if you or your partner are self-employed or work on commission, your household income may be less stable and you may want to consider a lower debt-to-income ratio as part of your planning. The same thinking applies if you or a partner anticipate changing careers or leaving the workforce during the next few years.

Many financial counselors recommend borrowing for items that are likely to add value, such as a home or a college education, and paying off credit card balances in full each month. By following this suggestion, you may limit debt payments to items that enhance your life and are worth the sacrifices that are required.

¹Source: Mortgage Bankers Association.

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Caring for Your Aging Parents

Many baby boomers find that their aging parents need health care assistance. Luckily, there are options to help parents grow old gracefully, either in their own home or in a facility, and several ways that you can finance the cost of their care.

Healthy seniors who can look after themselves generally are eligible to enter a continuing-care retirement community that allows them to buy or rent an apartment and ensures lifetime nursing care when necessary. Another option is private long-term care insurance, which can help cover nursing home costs or the cost of an in-home aide.

Maintaining Their Own Home

When a parent is not healthy and moving him or her into your household is not a workable plan, maintaining your parent in his or her own home is also an option. There are costs associated with making a home environment suitable for an aging person. For example, first-floor bathrooms, grab bars in hallways and bathrooms, and a personal emergency response system may be necessary. If your parent needs daily assistance with meals or chores, Meals on Wheels may be free for anyone over age 60.

Medicare will pay the full cost of professional help only if a physician certifies that your parent requires nursing care and if these services are provided by a Medicare-certified home health care agency. Adult day care is also an option and is a good way to get your parent to socialize with other adults. Prices for day care can cost up to \$100 a day or more, and reduced rates may be offered for those who cannot afford the full charge.

Financing a Parent's Care

If you provide more than half of a parent's support and his or her gross income was less than \$3,500 in 2008, you can claim your parent as your dependent, which gives you a tax exemption and permits you to write off a significant portion of medical expenses. (Note: The dependent exemption phases out at higher income levels. Check with your tax advisor.)

If sending your parent to a nursing home is inevitable, Medicare will only pay for care on a short-term basis and Medicaid only offers benefits to low-income individuals with limited assets. With the average nursing home stay costing upwards of \$6,266 per month, financial planning has become crucial to the economic well-being of adult children responsible for the care of their elderly parents.¹ Start planning now to ensure the future care of your parents.

¹Source: *Elderlawanswers.com*, September 28, 2006.

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Life Insurance Can Help Ensure Business Continuity

When business owners plan for surviving a change of ownership or the loss of a key employee, they frequently incorporate life insurance as part of the process. Life insurance can be used as a funding mechanism in buy-sell plans, which are legal agreements that provide for an orderly transfer of ownership interests. Outside of a buy-sell plan, insurance may compensate a business for the cost associated with the loss of a key person.

Buy-Sell Agreements

A buy-sell agreement allows the remaining owner or owners to acquire the interest of a withdrawing owner due to a triggering event such as death, disability, or retirement. The agreement typically restricts an owner's ability to transfer his or her interest and establishes the terms under which another owner or the business entity may acquire the departing owner's interest.

A buy-sell agreement can anticipate situations that could imperil the business or be harmful to owners and employees. For example, it can be used to prevent unwanted outsiders or heirs from obtaining an ownership interest; it can prevent the continued involvement of retired or inactive shareholders; and it can ensure the legal continuation of the entity should an owner become bankrupt or lose a required professional license. A buy-sell agreement creates a marketplace for the shares of a closely held business, helping ensure that departing owners will receive adequate compensation.

Insuring a Key Person

Key person life insurance is another strategy that compensates a business against losses that result from the insured's death. In that event, the company, which has purchased the policy and paid the premiums, receives a tax-free death benefit and applies the proceeds toward the resulting business costs. Examples of costs could include recruiting and training a replacement, purchasing the decedent's ownership interest, and replacing lost revenue. To provide greater flexibility, the company may arrange an exchange agreement, allowing it to transfer coverage to a successor if the key person leaves the firm prior to retirement.

Getting Professional Assistance

Your insurance agent can provide information about life insurance terms and costs. Keep in mind that insurance premiums are not deductible business expenses and life insurance cash values and death proceeds may trigger the corporate alternative minimum tax. In addition, you may want to consult your legal and tax advisor to determine how a buy-sell agreement could affect your personal financial situation and your estate plan.

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