

FINANCIAL MUSINGS

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Where can you get a good rate of return?

You know that I am big on investing in the market and getting a rate of return that beats the inflation rate and taxes that you must pay on your earnings. Money that is needed in the short term or for emergencies however, must be kept in a safer place. Do you have to leave that money sitting in a savings account earning 1% to 2%? No, you do not have to.

Consider online banking. These are banks that exist only online, they have no local branches that you can walk into to make transactions. They do not have the overhead of a traditional bank and thus are able to offer you a greater interest rate on your money.

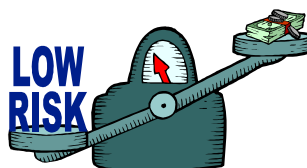
You perform transactions over the Internet or they can be done by phone. You must maintain at

least a checking account at a traditional bank. Money is transferred electronically from your checking account into the online savings account. When you need the money back you simply request a transfer of the money back into your checking account.

You can set it up for a certain dollar amount to be transferred automatically or you just transfer money as you wish.

A major advantage I see is that you have access to your money, but will take a day or two to get it. This may help decrease impulse spending since you cannot hit the ATM or local branch and get cash.

What kind of rates of returns can you get online? Rates for savings accounts are 4.5% to 6.00%. Some well known online banks



Some needs to be low risk

include www.Ingdirect.com, www.Emigrantbank.com and www.HSBCdirect.com.

The question usually in people's minds is, are these banks safe? Just like your bank with the local branch the deposits into these accounts are federally insured up to \$100,000. The three banks noted above have been around for several years and have had very few customer complaints. These are secure sites and they take their security seriously.

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My business works because of you and people like you. If you are happy with the service that I provide for you please consider referring me to your family, friends, co-workers and others. I am looking to expand my financial planning practice in addition to the income tax practice.

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Deduction for PMI (private mortgage insurance)

If you purchase a home without 20% down you generally have to purchase mortgage insurance. Normally private mortgage insurance costs 1/2 of 1% of the amount that has been mortgaged. On a \$100,000 loan that means a \$500 annual payment.

New in 2007 there will be an itemized residential interest credit for those purchasing a house in 2007 who are incurring the expense of PMI. This deduction is only for the 2007 year and Congress is hoping that it will stimulate the housing market.

The deduction is 100% of the amount paid in PMI as long as your adjusted gross income is less than \$110,000. The deduction is prorated for AGI between \$100,000 and \$110,000.

An alternative to PMI is a piggy-back loan, which is generally more reasonable. This is when you take out a mortgage for 80% of the value of the home. A second loan is then taken out for the 20% down payment thus avoiding the PMI. This is a more affordable option and provides a great opportunity for those who

have been unable to save a down payment.

If you are already paying PMI look into the option of a piggy back loan to stop paying this expense.

If you have over 20% equity look at your mortgage to determine if you can stop paying PMI. No one notifies you that you can stop paying PMI. It is up to you to make the first move to get it removed. You need to find out what your mortgage company's procedures are.

How much will I have?

You are being good and have contributed towards your retirement. Have you ever wondered how much your investment will be worth in 10 years, 20 years or even 30 years? Have you saved enough? The quick answer to this question is using the Rule of 72.

The Rule of 72 says to divide the number 72 by the rate of return you anticipate earning on the account and it will give you the number of years it will take for your money to double.

Let us take an example. What will your account be worth at age 62 if you are currently 35 and have saved \$30,000 in a retirement account earning 8% annually? Divide 8 by 72 and you get 9 years. Every 9 years your account will double. Age 35 plus 9 makes you 44 and the account would be worth \$60,000. Age 44 plus 9 makes you 53 and the account

will be worth \$120,000. Age 53 plus 9 will make you 62 and the account will be worth \$240,000.

If instead of earning 8% you earn 10% annually you would have around \$400,000 (it would actually be \$480,000 at age 63 and 9 months). If you were only earning 6% it would be only have only double twice and you would have \$120,000 at age 59.

What if you want to have a million dollars at age 62, how much would you need to have today? Do the process in reverse. If you are earning 9% and divide that by 72 you get 8 years. So—at 62 you would have a million, at 54 you would have \$500,000, at 46 you would have \$250,000 and at 38 you would need to invest \$125,000 to meet your goal.



Will I have enough?

It is important to note that the Rule of 72 assumes that you will not be making any additional contributions.

Think of what a small deposit in an IRA for your 16 year old child would be worth at age 65 even if he made no additional

contributions. If the account is earning 12% it will double every 6 years. That means doubling 9 times by the time he is 65. A \$4000 contribution would be worth over 1.2 million dollars. One \$4000 contribution.

You hear it over and over again. Start early. Looking at the Rule of 72 should show why that is so important.

What does it take and are you willing to do it?

Have you ever wondered why rich people just seem to get richer and others are stuck in poverty for a lifetime? There are seven characteristics of rich people.

One—No limited self belief. You must believe that you are going to be rich, really believe. Do anything necessary to achieve your goal including things you dislike or taking on tasks that seem impossible. Stretch yourself and your limits.

Two—Recognize the importance of time. Time is an important resource and a precious asset. Do not waste time sitting in front of the TV night after night. Read to gain knowledge, create a small business or earn a degree online. Do not think getting your fifteen minutes of fame on a reality TV show is going to be the way to riches.

Three— Seek out other people of a higher social status. You need to network and learn from others that are wealthier. Actively seek out those in your community who are the “movers and shakers”. Ask someone that you

look up to, to be your mentor and help you improve your status.

Four—Expense as an investment. Many poor people think that the best way to manage money is to use less of it. Rich people see many expenses as an investments. For example using money to take a college course will increase your skill set and possibly provide better opportunities for you in the future. Owning your own home will increase your net worth rather than wasting money by renting a house.



Five—Strong self-confidence. Rich people exhibit a high level of self-confidence and this can be contagious. Be an optimist. Maintain a positive outlook. Do not be shaken by external forces.

Six—Good money habits. Saving in a savings account is not the best use of your money. Put a significant portion of your wealth into investment vehicles that give you a better rate of return on the investment. Do not spend money aimlessly buying things that

have no real value. Lottery tickets are not the way to an early retirement for most.

Seven—Be philanthropic. Make charitable donations intended to increase human well being. Right now you cannot give like the Bill Gates Foundation, but the feelings that you will get from giving 10% of your income will increase your own well being.

People do not become wealthy overnight. There will be setbacks and challenges to getting where you want to go. Think of these setbacks as learning experiences that will strength you instead of as a negative experience. Even reading this newsletter may be increasing your knowledge and skill set! Do something with that knowledge.

You need to think of yourself as a rich, successful person. Certainly, dream about what you can achieve. Then go out and do what you need to do to achieve that dream. Do not only think of being rich in terms of money however. You can be rich in so many other ways—relationship-wise, spiritually, health, friends and family.

How charitable are you?

Are you giving to charity only because you can get something for it? Namely, a tax deduction.

Whatever your reason for giving it has just become harder to claim cash amounts as a charitable contribution. IRS now says that if you do not have a receipt it cannot be claimed as a charitable contribution. A receipt can be a cancelled check or a credit card charge in addition to an actual receipt. So those small amounts that you give to the local Salvation Army in their red kettles or that dollar you give to the local little league are no longer deductible unless you get a receipt or write out a check.

How realistic is it that you are going to get a receipt for those types of contributions? Hopefully you are charitable enough to keep

giving even if there is no tax deduction. Organizations that rely on those small change contributions are worried though.

Do get receipts for what you can. If you attend church stop throwing cash into the collection plate, write out a check instead. If you are buying Girl Scout cookies or Boy Scouts popcorn write out a check for the purchase, not to the individual, but to the organization. When you are donating to an organization and getting something in return you get to write off a portion of that money as a donation.

To make it more complicated they have also changed the rules for non-cash contributions. If you are donating items to the Rescue Mission, Chenango Clothing bank or other organi-

zation, they must be in "good" condition. The problem is no one has defined what is "good".



Lend a helping hand!

Once you make the contribution to the organization you no longer have the items to prove they were in good condition. Many are waiting to see if they force the organizations to start inspecting merchandise and determine what is in "good" condition. If you determine what is in good condition what do you do to prove that it was if you audited? As a safeguard right now I suggest taking pictures of some of the items you are donating as a representation of what is given.

I will let you know if I hear any more on this issue in future newsletters. IRS looks like they may start going after this so be careful.

Should you pay off your mortgage early?

There are opposing schools of thought on whether or not you should pay down your mortgage. On one side is the advocates that you get out of debt, all debt as soon as possible. If you are approaching retirement age this makes sense since you may have less income available in retirement than now.

If you are paying a mortgage and have significant savings it may pay to reduce the mortgage. If you are not earning as much on your savings as the interest rate you are paying for the mortgage, it might make sense to pay down the mortgage.

Couple of ways to easily pay your mortgage

off early if you do not have a lump sum—change to biweekly payments or pay extra principal each month. Make the same amount of mortgage payment just pay 1/2 of the payment every two weeks. With 52 weeks in the year you will end up making 13 payments instead of 12. You will probably knock 3-6 years off your mortgage with a significant savings in interest paid. You can achieve the same results by taking your monthly mortgage payment, divide by 12 and add that additional amount to your payment each month, effectively making 13 payments a year.

On the other side is the fact that if you are

significant savings in interest paid

mortgage free you are sitting with an asset that is not increasing your wealth. Additionally you are paying more in income taxes since you do not have a mortgage interest deduction. You could take out a mortgage, invest the proceeds and if you earn a better rate of return than what you are paying on the debt you will be money ahead. Even if you elected to pay the mortgage out of the investment it is possible to end up with a significant amount in an investment account when the mortgage is paid off.

What are you worth?

Do you know what your net worth is? This is the amount of assets you have less the amount of liabilities that you owe.

Assets are "things" you have. It includes your house, cars, retirement accounts, savings and investments, cash value on life insurance and everything else you own. These items should be valued at fair market value, not what you originally paid for them. What are they worth today?

Liabilities are what you owe. It includes your mortgage, store or credit card debt, car loans, student loans and any money you may owe to

friends and family.

Take your assets and subtract your liabilities to determine your net worth. If your assets are larger you have a positive net worth; if your liabilities are higher you have a negative net worth.



Are you a millionaire?

Your goal—perform this task at least twice a year and work to increase your net worth. This is achieved by reducing your debt or increasing your assets without incurring more debt. As your net worth increases you are becoming more financially secure.

Want to be able to track your net worth more often? Consider using one of the software programs available such as Quicken or Microsoft Money. These programs also allow you to track your income and expenses. Any amount of income that is not spent on expenses will automatically increase your net worth.

If you do not look at your net worth how will you know when you become a millionaire? How do you know where you stand? Preparing a net worth statement can be eye opening.

Is a VA right for you?

The debate is heated over whether or not variable annuities are a good investment. The answer is it depends on your purpose for investing in the annuity.

Variable annuities allow you to have tax deferred growth during the accumulation of the asset. With the new living benefits present in many VA contracts it is a great way to manage downside risk while giving you the chance for the upside potential the market has. Additionally unlike traditional retirement plans there is no mandatory age when you have to start distributions.

There are drawbacks to a variable annuity

however. As you begin to take distributions they will be taxed at ordinary income rates rather than the lower capital gains rates. Since this is an insurance product in addition to an investment product you will have higher expenses to pay than you would if you invested just in mutual funds.

I believe a variable annuity makes sense if you have maximized all your other retirement accounts and are still looking for a way to save additional money for retirement.

I believe a variable annuity makes sense if you



Right move now?

have money that you will not need for a long time, maybe even money you plan on leaving for your heirs.

I believe a variable annuity is appropriate when you want to take a conservative approach to investing but want the potential that investing in the market achieves.

If you have had a variable annuity contract for a while it may be worthwhile to update to the latest and greatest versions with their new bells and whistles. If you would like a review of your variable annuity contract call the office and make an appointment

\$290 billion!

This is the amount that IRS estimates taxes are being underpaid annually—the difference between what should be collected and what is actually collected. How is this happening?

If you have wages that are being reported on a W2 the IRS knows what you make and how much you need to pay in taxes, right? Maybe. What about that \$5 in interest income that you do not claim because the bank did not send you a 1099 for it? If you take that \$5 for several million people how much is underreported.? Or those charitable contributions you claim for the Salvation Army that may be inflated?

The main source of the uncollected amounts, however, comes from self employed and non-filing individuals. How many of us are paying a child care provider that is not claiming the income? Or how about that handyman who gives you one price if you pay cash and a second, higher price if you want to pay by check or want a receipt? I find it interesting that the occupation that is known as the number one non-filer is attorneys.

Even when self-employed individuals file, oftentimes they underreport their income and inflate their expenses to pay less in taxes. Unfortunately in New York State many feel they have to do this just to stay in business

the occupation that is the number one non-filer is attorneys

because of the high cost of doing business in the state.

IRS is looking for ways to close this gap. More informational reporting for services being provided is expected. Having brokers report cost basis on 1099 form when stock is sold. Expand e-filing to allow the computers to find more “errors” that are being made. Cross checking what is claimed for business with what is personally claimed. Close to my own heart—regulating tax practitioners by

Make a game of it!

I saw the other day that the average 5-6 year old is bombarded with over a hundred images in a typical Saturday morning cartoon session. It is filled with commercials about toy themed cereals and sugary coated snacks. It makes a trip to the grocery store with children a daunting idea.

Most of us have heard that the best place in a grocery store is the outer ring of the store, but many of us venture into the center of the store. There are good alternatives available in these aisles. The key is to get the kids involved and make a



Lets play!

game out of it.

For example, teach your kids how to read the unit prices and labels. See who can find the one with the lowest cost per serving.

Give them the choice of the different kinds of apples. Maybe buy one each of several varieties, they are usually the same cost, to help develop tastes.

If the child is old enough send him on a mission to find one particular item at one end of the aisle while you grab the low sugar cereal at the other end.

Tell the child that he can have one item of his choice at the end of the grocery shopping if he goes through the whole store without asking for anything the first time.

If you are shopping from a list put your child in charge of the list telling him to make sure you only get what is on the list.

Give your child a set amount of money, a dollar or two and tell him he can spend that.

Many of us find grocery shopping tedious and boring. What do you think your kids think? Make it a learning session and fun too.

Are you putting yourself at risk?

When was the last time that you reviewed your portfolio? If it is out of balance, you could be at risk. Maybe you originally allocated 20% to large cap, 30% to small cap, 15% to international and 35% to fixed income funds. In the last couple of years small cap stocks have been doing very well. It is possible that the small cap portion of portfolio may now be 50% rather than 30%. You might be thinking, yes my value is going up and this is good.

The problem is, what happens when small caps are no longer the hot sector and start declining? You are at risk for seeing a serious decline in the value of your portfolio. So what do you do? You sell the portion of your portfolio that is in small caps and buy large caps which are now the hot sector. This causes you to buy at a high price and to sell at a low price, exactly what you do not want to do.

What you should be doing is rebalancing your portfolio on a quarterly, semi-annual or annual basis. Rebalancing means moving the portion of your assets out of the class that has become too much of your portfolio and moving it into the class that has become too little of your

portfolio. This causes you to sell high and to buy low. Exactly what you want to do. You will rebalance back to what your original percentages were.

Do not want to monitor your percentages that closely? Do not trust yourself to be able to sell that “high” mutual fund when it is growing really well? Have only a small amount of money to invest and it is not reasonable to allocate to several different funds? Consider investing in an asset allocation fund.

An asset allocation fund will invest across all asset sectors. Included in one fund will be large cap, small cap, and international stocks and fixed income bonds. You choose between an aggressive, moderate or conservative portfolio. The fund manager does the allocation between sectors for you. He sells when the stock gets high and buys when the stock goes low.

Sometime these funds are called target dated funds or lifestyle funds. These funds are primarily used as retirement funds. You pick a

fund that has the date closest to when you anticipate that you will retire. For example, if you want to retire at age 65 and you turn that age in 2025 you would choose the fund that has a target retirement date of 2025.



It is a balancing act!

It should be noted that if you are rebalancing in a taxable investment account that as you rebalance it to the appropriate percentages you will be incurring tax conse-

quences. This can be minimized in a couple of ways. One is to allocate any new monies that you are adding to the sector that the percentage is too low — again buying low. The second way is instead of reinvesting your dividends and capital gains back into the same fund have them allocated to the fund that needs an infusion of cash. This may not completely eliminate the need to sell assets, but it can minimize the tax consequences.

If you are investing in a 401k or other retirement accounts that you are not sure if they are balanced correctly give me a call and we can sit down to review the allocation.

Planning is the key!

.Be financially smart when you are vacationing. It is so easy to get carried away, not think about what you are spending and figure you will worry about it when you get home.

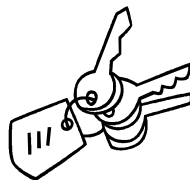
The smart thing to do is plan, plan, and then plan some more. Before you leave home you should know how much you can afford to spend on this vacation. It is easy to determine how much the airfare will be and what the cost of the hotel will be. Make sure you factor in all taxes and surcharges which can add up significantly.

Where you can really get out of hand is the cost of food and entertainment. You are on vacation so you will want to splurge certainly. You just cannot afford to do it everyday, all day. For exam-

ple maybe you want to do a fancy dinner out tonight. Stop at the local supermarket and buy some fruit and granola bars for breakfast

rather than going out. And maybe a fast food place for lunch rather than a sit down restaurant. Pack some snacks and drinks for the children rather than buying them at the venue.

Take full advantage of free or low cost entertainment venues. Maybe spend a day at the hotel pool, the kids will love it. Spend time on the Internet before you go to look for local attractions. Zoos, beaches and parks can be inexpensive alternatives to amusement parks. Kids may be just as happy going to the local miniature golf course and arcade as going to a more expensive venue. Spend the afternoon at a movie matinee if this is a treat. Go to a local double or triple A ball-park instead of the major league game.



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The key is to plan before you go so that you are not worried the whole time you are gone. To prevent the kids from whining about where

you are going and what you are doing get the kids involved. Give younger kids the choice between venue A and venue B, both of which are low cost alternatives. If you have teens maybe make it a game to see who can plan the least expensive, but enjoyable day. Plan one day at the more expensive amusement park rather than three.

We all want to make our children’s dreams come true. Think about it though. Is it worth bankrupting your family for a week’s vacation? Make memories out of the small stuff. Sure there is that dream trip to Disney, but do you need to go every year?

If a week’s vacation is not in your budget see if you can budget several one day mini vacations. Take the train from Beacon into NYC for a day at the museums. Drive up to Old Forge and go the Water Safari. Go to the zoo in Syracuse. NYS has a lot to offer at a reasonable price, you just need to look for it.

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Relax, I am here to help you

I hope you are enjoying Financial Musings. Please feel free to pass it onto a family member or friend. Or if you want give me a call with their names and addresses and I will add them to my mailing list to receive their own copy.

Gerri Harrison Financial Services provides financial planning and tax preparation services to individuals and small businesses. "I want to be part of the family. There for the good and the bad. Everyone has a job and purpose in the family. My job is to assist you in achieving your financial dreams and aspirations as well as meeting your financial obligations and concerns. I want to be there to pack your child off to college or pack you off to retirement. I want to be there through the christenings, weddings, illnesses and deaths. Whenever there is a financial matter you have a question about I want the first thing you think of to be "Gerri will know how to handle it.".

Do you know the signs of workplace burnout?

Workplace burnout is the main cause of reduced morale and absenteeism. Are you feeling a lack of personal achievement and satisfaction at work? Is going to work a time-consuming drudgery and a day-long bore? Are frustration levels increasing? You may experience burnout as early as your 30s, but most are affected in their 40s.

There are emotional and physical symptoms associated with burnout. The emotional tend to show up first. You may feel unrelenting stress, lack of enthusiasm, sense a loss of control and unexplainable grief. You may blame those around you for the way you feel, but it rarely actually involves others. It is an inner turmoil. You may even be having thoughts of suicide as the only way to escape.

Workplace burnout also affects you physically.

The feeling of never being able to do enough may cause you to work extremely long hours in an effort to catch up. You may lose sleep due to the sense of failure to achieve anything meaningful. This will lead to physical exhaustion.

Physical exhaustion can take the form of headaches, shaking from head to toe, inability to think clearly and being unable to relax. You may lose your ability to communicate clearly so it becomes difficult to communicate with a spouse, children, a boss or coworkers. Conversations quickly become explosive.



Too much!

What can you do if you are experiencing workplace burnout? There is no easy solution. It has taken you a while to get where you are today and it cannot be fixed overnight.

First—you need to take time out of your busy life and confront what the real issues are. Is your job just not fulfilling enough? Is there too much travel,

putting stress on family life? Are the demands on your time too much for you? Did you go into this occupation for the wrong reasons?

Try writing down your thoughts and feelings to identify the source of uneasiness. Writing things down helps clarify. You may need several sessions of writing to fully identify your issues.

Consider a trip to your general practitioner. He may be able to prescribe relaxants or sleep aides. If the issue is serious enough you may even need anti-depressants or anxiety medications for a short period of time.

Finally, the most efficient way of resolving workplace burnout may be relying on a professional employment counselor. Their assistance can help make the hard decisions become easy as you work through the process of resolving the causes of the workplace burnout. A counselor can help you get back on track to a happy and healthy life.
