602-212-1040 Third Quarter 2011

11 Top Financial Planning Tips For The Rest Of 2011

How are you faring financially so far in 2011? Now is a good time to assess your situation and consider changes. Consider these 11 tips.

1. Spend only what you can afford. It seems simplistic, but many people, even those with substantial incomes, ignore this basic financial principle. If you have more money going out than you have coming in, it's a recipe for eventual disaster. To get things in balance may require trimming your spending or earning more. Are you being paid what you're worth? Can you get an additional, part-time job? Do you have entrepreneurial ideas that could bring in extra income? Making a few thousand dollars more each year could add up to a significant sum over your lifetime.

2. Make a budget and stick to it. This tip dovetails with the previous one. Regardless of how much you earn, it's important to know what you're spending and where the money goes. Track your expenses by keeping credit card receipts and noting cash payments. You may be surprised at how much you spend on certain items and monitoring your outlays could help you find easy ways to economize.

3. Avoid mounting credit card debt. One of the worst financial traps is to make large purchases on credit and then fail to pay off the full amount each month. Despite recent legislation to reform rules on credit cards, your issuer can still impose double-digit interest rate charges on unpaid balances, sending your debt higher and higher and making it increasingly difficult to retire. If you have a large balance or two, consider consolidating your debt and putting away your plastic until you catch up.

4. Pay yourself first. This idea also needs to be coordinated with previous tips. But the main point is to set aside perhaps 5% to 10% of your income on a regular basis—before it gets spent. It may help to have the money automatically deducted from your paycheck and deposited into a separate account.

5. Invest your savings. It's not enough just to save money; you also have to put it to work for you. It's important to have an investment plan that considers your savings goals, when you'll need the money—for your kids' education, your retirement, or another objective—and how much investment risk you're comfortable taking. We can help you devise and implement an effective portfolio strategy.

6. Maximize employment benefits. Taking advantage of on-the-job benefits such as employer-sponsored health, dental, and life insurance could mean substantial savings. If your company offers flexible spending accounts, you can arrange to use pre-tax dollars to pay for unreimbursed medical or dental expenses—and save as much as a third on those outlays.

7. Salt away money in retirement plans. Most employers let you participate in a 401(k) plan or another tax-favored retirement account.

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New Toy Line Teaches Kids About Money

When should you start teaching your kids and grandkids about saving money? Maybe not while they're still in diapers, but you don't have to wait much longer to begin the process. Now a nationally known toy manufacturer is doing its part.

Zillionz, a toy line from Summit Products, includes several items designed to help children keep track of their money. The regular lineup features products such as cash registers, digital piggy banks, and electric coin jars. All of these may give youngsters a head start on learning to manage their personal finances. But a new Zillionz product could be even more helpful. The device, a personal-savings machine, has three jars that a child could use to save for different purposes—say, to buy a new bike, a camera, and an X-Box. The toy counts money as it is inserted and keeps a running tally for each jar. It also has a customizable LCD screen that displays the savings in each jar as well as the total amount.

This creative device is not your father's piggy bank. It can even remind the kids to deposit their weekly allowance!

According to a recent press release, the new savings machine is available at Toys "R" Us for $49.99. Zillionz products can also be found in stores such as Walmart and Target.

Do You Have An Administrative Trustee?

There are many kinds of trusts, and many ways they can be used to provide benefits to you and your family, now and for years to come. A trust might protect your assets from creditors, delay cash distributions to your children until they're mature enough to handle the money, or minimize estate taxes when you die. Whatever its purpose, a trust will need one or more trustees to manage its assets and make crucial decisions about how assets are used. For example, a trust's primary trustee may be called upon to decide when to let a beneficiary receive early or additional distributions. But a trust might also benefit from having an "administrative trustee" for tasks that do not require judgment or discretion yet are time-consuming and essential.

Your trust's regular trustee may be a family member, friend, or advisor; in some cases, you might even choose to fill the role yourself. An administrative trustee—normally an institution with long experience in trust administration—can work hand in hand with your designated trustee to achieve your goals. The benefits of having an administrative trustee may include:

- **Professional experience.** If you enlist the services of a reputable firm such as Charles Schwab or Fidelity, you can reasonably expect to work with administrators who are competent and knowledgeable. They should be able to handle the often complex tasks of trust administration.

- **Wide-ranging services.** A financial firm hired to work as an administrative trustee can collect dividends and interest, distribute income or principal, prepare federal and state fiduciary income tax returns, and handle various other accounting and record-keeping duties.
- **Continuity.** Using a well-established administrative trustee can help ensure that your trust will be properly administered for as long as it lasts, perhaps for generations into the future.
- **Special advantages.** An experienced administrative trustee can help realize the tax or asset-protection advantages of establishing a trust in such states as Delaware or Alaska.

You can have language inserted into your will nominating a financial firm to be the administrative trustee of a designated trust and allowing your heirs to replace that trustee if necessary. The cost of the service is normally based on a percentage of trust assets, though no fees will be due until the trust comes into existence, often after your death. It's important to remember than at an administrative trustee isn't a replacement for the primary trustee responsible for managing trust assets and handling other crucial tasks. Instead, the firm you choose as an administrative trustee is there to facilitate the operation of the trust so that it can meet the objectives you've set for it. ●

Modern Portfolio Theory Is Alive And Well

For more than 50 years, Modern Portfolio Theory, or MPT, had been an article of faith for investors. The basic idea was that you could keep investment risk and reward in balance by choosing a diverse mix of assets. But then came the bear market of 2008 and 2009, during which nearly every kind of stock, bond, and most alternative investments plunged simultaneously. That led some analysts to pronounce Modern Portfolio Theory dead. What good is diversification, they asked, if everything sinks together?

But Modern Portfolio Theory never asserted that asset classes couldn't fall at the same time. Moreover, a look back over the past decade shows that investors who stayed diversified, continuing to rebalance during the downturn, enjoyed healthy returns. In fact, the market meltdown has proven a powerful validation of MPT.

MPT asserts that the best way to maximize returns while minimizing risk over the long term is to allocate your money among diversified classes of investments and periodically rebalance to keep the proportions in line with original targets.

MPT attempts to build a portfolio of asset types that won't necessarily move together in response to changes in the economy. The hope is that when one portion of your portfolio—say, large-cap stocks—falls in value, another part—commodities, for instance—will rise. Rebalancing lets you "buy low and sell high," because to keep allocations at proper levels you end up selling assets that have gained in value and buying others that have lost ground.

For long-term investors, one of the most distressing aspects of the 2008 economic crisis was the unprecedented way that nearly all asset classes—bonds, stocks, commodities—lost value at the same time. The notion that diversification ensures gains in some sectors despite losses in others seemingly lay in tatters. But diversification can't, in fact, ensure that outcome, and MPT never suggested it could. It can merely increase the likelihood of that result.

And even when, inevitably, there are times when every part of a portfolio loses

4 Retirement Plans For Self-Employed

When you're self-employed, it's often difficult to set aside money for retirement because every dollar is coming out of your own pocket. Yet if you don't invest in your future, no one else will, so it's important to make retirement saving a top priority. You can use one of several saving and investment vehicles whose features can help you gradually build a substantial nest egg. Consider these four retirement plans that are specifically geared to the self-employed.

1. Simplified Employee Pensions (SEPs): The main attraction of SEPs is that they are, indeed, simplified. For one thing, SEPs are generally exempt from stringent tax reporting requirements that apply to most other plans. As a "defined contribution" plan, deductible contributions for the 2011 tax year are limited to 25% of your compensation or to $49,000 ($54,500 if you're age 50 or over), whichever is less. The maximum compensation taken into account for these purposes is $245,000.

Contributions to an SEP are discretionary, so you're not locked into a specific amount for any year. However, if you have other employees, you have to make contributions on their behalf if they have worked for you for at least three out of the previous five years and earn more than a minimum level of compensation ($550 for 2011).

Like other tax-advantaged retirement plans, SEPs generally don't permit distributions before you reach age 59½ (you'll be assessed a 10% penalty and owe income tax on early withdrawals) and you must begin taking annual required minimum distributions, or RMDs, after age 70½.

2. Savings Incentive Match Plans for Employees (SIMPLEs): Many tax rules for SEPs also apply to SIMPLEs, which are likewise exempt from the usual tax reporting rules. But unlike SEPs, which let you contribute even if your business has another retirement plan, a SIMPLE must be your sole retirement savings vehicle, and SIMPLEs also have lower ceilings for tax-deferred contributions. For 2011, the maximum is $11,500 ($14,000 if you're age 50 or older). But your business can elect to provide matching contributions to the plan, subject to nondiscrimination rules. You'll have to contribute on behalf of any employee who has earned at least $5,000 during the preceding two years and who is expected to earn at least that much during the current year.

The general tax rules for early withdrawals and RMDs also apply to SIMPLEs. But there's a 25% penalty on withdrawals made within the first two years of participation.

3. Keogh plans. At one time, if you were self-employed, the Keogh was the only retirement plan in town, but its popularity has waned now that there are other, generally simpler alternatives. The amount you can put into a Keogh each year depends on whether it's set up as a defined-contribution or a defined-benefit plan. For 2011, the maximum deductible amount for a defined-contribution Keogh is the lesser of 20% of earned income or $49,000 ($54,500 if you're at least 50 years old).

If you have a defined-benefit Keogh, your annual contributions will be computed actuarially to deliver a specified amount of retirement income. The plan may provide an annual retirement benefit equal to 100% of the average income earned during your three highest-paid years, or $195,000, whichever is less. Rules on RMDs also apply to Keogh plans.

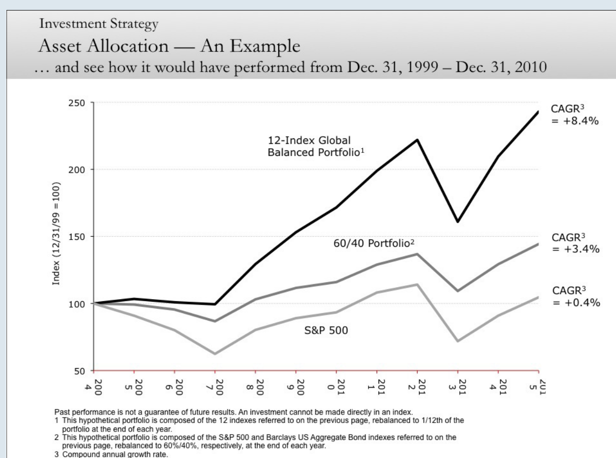
4. Solo 401(k) plans. This staple of retirement planning for the employees of large companies used to be pretty much off limits to the self-employed, who were deterred by prohibitively high administrative costs. But now it's feasible to operate a 401(k) for just one person (or for a sole proprietor with a few employees).

The maximum tax-deductible salary deferral allowed for 2011 is $16,500 ($22,000 if you're at least 50). A major advantage of this plan for the self-employed is that it lets you combine contributions as an employee with matching contributions as an employer. This lets you reach the $49,000 maximum for retirement plans this year ($54,500 for those 50 and over).

Most other rules relating to contributions and distributions from defined-contribution plans also apply to solo 401(k)s. But if you're the only employee, you don't have to worry about tough nondiscrimination rules that normally apply to 401(k)s.

Any one of these retirement plan options might work for your business, but finding the best fit means taking a closer look at the details of each and considering its pros and cons for your enterprise. We can help you explore the options. ●

value for a while, MPT has great potential value. According to economist Fritz Meyer, a global portfolio using 12 asset classes managed according to MPT principles would have earned a compound annual growth rate of 8.4% during the volatile decade ending in 2010, compared with a 0.4% gain for a portfolio holding only stocks (represented by the Standard & Poor's 500 index).



Past performance is not a guarantee of future results. An investment cannot be made directly in an index.
1 This hypothetical portfolio is composed of the 12 indexes referred to on the previous page, rebalanced to 1/12th of the portfolio at the end of each year.
2 This hypothetical portfolio is composed of the S&P 500 and Barclays US Aggregate Bond indexes referred to on the previous page, rebalanced to 60%/40%, respectively, at the end of each year.
3 Compound annual growth rate.

The secret is in the rebalancing, Meyer says, because disciplined rebalancing forces you to ignore macroeconomic considerations and keep emotions out of the process.

As we embark on another decade of economic and market uncertainty, we will continue to design portfolios that are properly diversified and regularly rebalanced, allowing MPT to work for you. ●

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And even when, inevitably, there are times when every part of a portfolio loses value for a while, MPT has great potential value. According to economist Fritz Meyer, a global portfolio using 12 asset classes managed according to MPT principles would have earned a compound annual growth rate of 8.4% during the volatile decade ending in 2010, compared with a 0.4% gain for a portfolio holding only stocks (represented by the Standard & Poor's 500 index).

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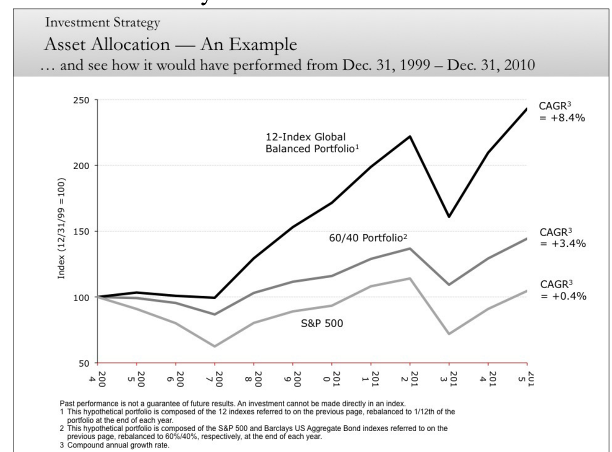
Investment Strategy

Asset Allocation — An Example

… and see how it would have performed from Dec. 31, 1999 – Dec. 31, 2010



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Tips For The Rest Of 2011

(Continued from page 1)

With a 401(k), you can defer part of your salary on a pre-tax basis to your investment account, and your company may match a portion of your contribution. Outside of work, both traditional and Roth IRAs can also help you build your retirement nest egg.

8. Convert to a Roth IRA. One downside to traditional tax-deferred retirement accounts is that you'll be taxed on distributions at a time when you may need all the income you can get. A Roth IRA, in contrast, doesn't let you deduct contributions but can deliver tax-free payments in your 60s, 70s, and beyond. You can convert traditional plans to a Roth, paying tax on the converted amount now to avoid liability during retirement. And because a Roth IRA doesn't require withdrawals, you'll have the option of preserving the account to pass along tax-free income to your heirs.

9. Review insurance policies. Don't make the mistake of being under or over-insured. For most people, the need for life and disability insurance is greatest during peak earning years and when there are children at home. But you'll need adequate insurance coverage even during retirement.

10. Create or revise your will. Your will is the road map to your estate plan, and if you don't have one, creating one is an absolute necessity. And an existing will may need to be updated, especially in light of the generous $5 million estate tax exemption ($10 million for married couples) available for 2011 and 2012. It's also important to have a power of attorney document drawn up in case you are unable to manage your own finances.

11. Get organized. Finally, make sure to keep accurate records and know where they are located. Developing a system for monitoring your finances should prove helpful for years to come. ●

Vestpointe Wealth Management, LLC
8800 East Raintree Drive, Suite 135 Scottsdale, AZ 85260
Phone: 602-212-1040 • Email: joem@vestpointe.com

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