

A PIECE OF MIND

First Quarter 2010



WORLEY ERHART-GRAVES
FINANCIAL ADVISORS

Upcoming Workshop: Managing Your 401k

For many of us our two largest assets are our home and our 401k account. Just as you routinely spend time to maintain your home, your 401k needs your time and attention as well. Do-it-once-and-forget-it does not work for real estate or your investments. The grass still grows and portfolios get out of balance. Therefore, we all need a strategy for managing our 401ks. Things like evaluating the investment options, rebalancing, and deciding how to allocate between traditional tax-deductible contributions and the more recent Roth 401k option all need to be addressed on a routine basis. With that in mind, Juli Erhart-Graves is hosting a workshop titled **Managing Your 401k**.

When: Wednesday, April 28th, 6:00pm – 7:30pm
Where: The Pyramids (near 86th and Michigan Road)
Pyramid Three, Lower Level, conference room B
RSVP: Call 317-872-5090 or email juli@wefinancialadvisors.com by Friday, April 23rd
Cost: None, but space is limited

This workshop is open to anyone, so feel free to pass this along or invite a friend who is interested in this topic. Light refreshments will be served.

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Selling Your Castle

We've all seen those TV shows that chronicle people flipping houses. The overzealous owner, working with a grossly underestimated budget, puts their efforts into a remodel that goes well beyond what the professional indicates is necessary to make a healthy profit. Almost without exception, the result is a financial disaster. On a smaller scale, this can also happen with homeowners who are simply in the market for a change in their primary residence. As we look around our homes we select the projects that *we think* the next homeowner would want, and we start spending money without solid evidence that we'll get those dollars back at the sale. So what can you do to spruce up your home without breaking the bank?



Attract buyers with curb appeal. Trim the bushes, plant flowers and add fresh mulch to liven up the landscape.

Expend some elbow grease. Deep clean the whole house, including the windows, baseboards and light fixtures.

Stage it. Declutter your home, getting a storage unit if necessary. Then rearrange the furniture to create the home you wish you lived in.

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Making Plans

Juli Erhart-Graves, CFP®

You have probably heard that January 1, 2010 ushered in a temporary reprieve from the federal estate tax. To many people that sounds like a good thing. [Insert the sound of birds chirping on a Spring day here.] However, because no good deed ever goes unpunished, many heirs may actually experience a tax *increase* in 2010.

For many years now, inherited property has received a step-up in cost basis to the fair market value on the day the original owner died. This step-up in basis often meant beneficiaries reduced, or even avoided, capital gains taxes when inherited assets were sold. However, with the lapse of the federal estate tax comes the implementation of carry-over basis. [Insert scary music and a monster hiding around the corner here.]

Carry-over basis means heirs will inherit the deceased owner's cost basis. Considering all the homes that were purchased decades ago without thought to cost basis, not to mention all the stocks with long-forgotten purchase prices, reconstructing cost basis will, no doubt, be a time consuming process.

There is a nugget of hope, though, because non-spousal heirs do receive a \$1.3 million step-up in basis, while property left to a spouse will receive an additional \$3 million in step-up (\$4.3 million total).

With the current focus in D.C. on healthcare, whether or not the estate tax will get the attention of lawmakers this year is questionable. We could see Congress taking action to reinstate the tax retroactively back to January 1 or some other date specified in a new law. At this point, the only thing certain in the estate tax is uncertainty.

Why does a slight tax increase cost you two hundred dollars and a substantial tax cut save you thirty cents?

Peg Bracken, author

General Perspectives and Ramblings

Grace Worley, CFP®

In a book called *The Little Book of Safe Money* Jason Zweig talks about our addiction to predictions. We hate not knowing what's going to happen. Entire professions have grown up around this obsession - astrologers, economists, psychics and the media's ubiquitous 'talking head' experts. A lot of this human bias is biologically based in how our brains observe events and organize them, affecting our future expectations. If I eat ice cream three times in a row and love it, I assume I will love every bowl of ice cream I'll ever eat. (Actually, that's pretty close to the truth for me although I did grimace trying mint chocolate.) We like to think there is much more certainty than the world really provides. Beginning this new decade, the soothsayers are busy again. So, I'll just join the frenzy with my own guesses of the future.

Will we have much higher inflation? Certainly at some time, but not necessarily soon. We could actually suffer some deflation before runaway prices become an economic reality. In the past, the American consumer was the major engine for world economic growth. In the future the consumer powerhouses will be China, India and Brazil. This also speaks to the increasing importance of being a global investor

General Perspectives and Ramblings, continued:

in your portfolio diversification, both in stocks and bonds. State governments are facing serious fiscal issues that won't disappear with a recovered economy. One big budget breaker will be state and county-based public pensions. Like Social Security, these government pension plans are not adequately funded for the projected payouts to retiring baby boomers. Unlike the Federal Government, they can't print more money to fill in the holes. Higher taxes and reduced benefits for future retirees will do that. My final 'prediction' is those who practice the stodgy basics of sound money management will prosper more than those who don't. These disciplines include adequate cash reserves, living within your means, limiting debts, saving regularly and being diversified. There will be no magic new investments in the future, just glitzy variations on the same fundamental investment types-investing in cash, bonds, stocks, real estate, commodities and collectibles.

Investing for the Ages

Bonnie Struck, CMFC®

I keep seeing articles that talk about the "lost decade" and question the point of investing. One word comes to mind, long-term. Just like how you cannot lose 50 pounds in a month on a diet, you also cannot save for your retirement in just 10 years. According to John Bogle, the founder of Vanguard, "the past 10 years proved that the old rules apply". Those rules continue to be diversify, stay the course and routinely rebalance your portfolio. Rebalancing a portfolio does not mean every month or quarter, but rather every one or two years. Trying to chase returns only gets you run over.



Why diversify when many would argue it did not matter where you were invested in 2009, your portfolio lost value? That may be the case but some asset classes experienced more loss than others. Diversifying does not protect you from loss, but can protect you against how much. Reading your account statements recently may not have been pleasant, but keep in mind, you do not realize a loss or gain until you *actually* sell the asset.

Investing *only* in the S&P 500 Index during the past decade would have resulted in a negative return. However, during that same period investing in domestic and international stocks as well as both domestic and international bonds would have given you a much different result, actual growth. This was using the old tried and true allocation of 40% interest-sensitive investments and 60% stocks.

This is a good time to review your portfolio, if you have not in the past 12 to 18 months, to see if there are some rebalancing opportunities. For example, you may have an asset that has depreciated and all signs indicate the future prospects are unfavorable. It may make sense to cut your losses and reinvest those dollars in something that does offer growth potential. The other advantage is you would be buying the new asset at bargain prices and can ride the market upward.

Give us a call if you feel you need to have your portfolio reviewed in the context of your overall comprehensive financial plan.



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Educating Junior

The Free Application for Federal Student Aid (FAFSA) is a staple for college students seeking financial aid. To avoid fraud, the Department of Labor verifies at least one third of the FAFSA applications according to FinAid, an online financial aid resource. Those are pretty good odds that your student's application will be audited at least once during his or her college career.

To navigate the complex world of financial aid, many parents are turning to college aid consultants. While there's nothing wrong with paying a fee for analysis and guidance, parents need to do their homework. Following are some things to look for in a financial aid consultant:

- Look into the consultant's primary business. Be wary of a consultant in the insurance industry whose recommendations focus on insurance products.
- Make sure the consultant has had several years of financial aid experience.
- In many cases the consultant will complete financial aid forms for you. In fact, paid consultants are required to sign the FAFSA even if they don't fill it out.
- Make sure the fee is not excessive by researching costs online before you hire a consultant.

As required by law, Worley Erhart-Graves Financial Advisors hereby extends an offer to provide you with a copy of our most current Form ADV Part II. For your copy, please call our office at 317-872-5090 or email us at info@wefinancialadvisors.com.