

A PIECE OF MIND

Second Quarter 2010



WORLEY ERHART-GRAVES
FINANCIAL ADVISORS

Upcoming Workshop: Managing Your Credit Score

Although we are each complex, unique individuals with many different likes, dislikes, moods and attitudes, in our financial lives we are reduced to one



number...our credit score. You can be the nicest person in the world who would give the shirt off your back to help another, but if you have a lousy credit score you won't find retailers offering you their shirts on credit.

A lot goes into your credit score, so you need to be in the driver's seat. To help put you there, Juli Erhart-Graves is hosting a workshop

titled **Managing Your Credit Score**. She'll cover things like: how your score is calculated, reading your credit reports, and preventing identity theft.

When: Wednesday, July 21st, 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, July 16th
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. In addition, we'll have a drawing and give away a cross-cut shredder to one lucky attendee!

Disabling a Disability

According to the *Benefit Landscape Study* conducted by The Hartford in 2009, only 36% of employees have long term disability insurance coverage. This is a remarkable statistic given that 97% of consumers would have major lifestyle changes if they lost part of the family's income for as little as 3 to 6 months. To further show the importance of long term disability insurance, the Social Security Administration reports about a third of those employed today will be disabled at some point in their working life and about half of the nearly 7 million people currently receiving Social Security disability benefits are under the age of 51.

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A PIECE OF MIND

Making Plans

Juli Erhart-Graves, CFP®



Although I'm not one to make predictions about market movements, the fundamentals of bond investing tell us that when interest rates rise, bond prices fall. Therefore, I'm going to go out on a limb and predict that bond prices will fall when interest rates begin to climb from the historic lows we've been experiencing. "When will that happen?" you ask. Although that depends on many moving factors, we could see interest rates starting to increase as early as this time next year (that is not a prediction!).

With the majority of investment dollars going into bonds in the last year, likely as a result of equity market performance and the recession, some people are sure to be caught off guard when their bond values drop. It seems bonds have been used as a safe harbor for many who want to avoid losses in equities. Oh, the irony!

Let's get our expectations in check now so no one is surprised when values adjust downward because of interest rates. Remember, bonds are an important part of a diversified portfolio. They can provide current income, and interim price fluctuations only matter if you sell the bond prior to maturity. For those with bond portfolio managers, the managers are routinely evaluating portfolio holdings and making buy and sell decisions in an effort to successfully implement their investment strategy.

Although there's no shortage of people willing to make predictions about the future, as for me, I'm no longer out on a limb in the prediction tree. And hopefully we can all rest a little easier with some knowledge about what the future holds.

General Perspectives and Ramblings

Grace Worley, CFP®

Clients often express doubts about the future viability of Social Security and the strength of their long term financial situation. Reading "The End of the American Century" by David S. Mason, a political science professor at Butler University, I can empathize with that growing uneasiness.

In the book, Dr. Mason outlines the events and decisions that have been eroding our country's ability to provide security and quality of life as the world's leading democracy.



Continued on next page...

General Perspectives and Ramblings, continued:

The book ends with a 'worst case' scenario and a 'best case' scenario in this devolution. The 'best case' only offers "a decline in the U.S. standard of living...given that both the U.S. government and the American citizen have been living well beyond their means for several decades... For most Americans, this will mean declining incomes, reduced consumption, boosted savings and delayed gratification."

Instead of being a bad thing, this sounds like it signals a return to the type of life most Americans lived in the 1940's; the period of Tom Brokaw's "The Greatest Generation". Watching a twenty-something couple on the HGTV show "My First Place" buy a \$400,000 *starter* home with only 5% down, a first *and* second mortgage and NO cash to contribute to closing costs, I think we can't start this retrenching around the value of fiscal prudence and against overt materialism too soon.

Investing for the Ages

Bonnie Struck, CMFC®

When you look at your investment account statements, you may see under the Cost Basis column, *Please Provide*. What is cost basis and why should you care? Cost basis is primarily used to calculate the capital gain or loss on an investment (held inside a taxable account) for tax purposes. However, even though your IRA statement has the same Cost Basis column, the information is not necessary to track for the IRS.

When you purchase a security you may want to sell it at some point in the future. At that time you will need to know the original purchase price (cost basis) to provide your tax preparer. Uncle Sam will want you to pay taxes on the appreciation (the difference between the purchase price and the sale price).

In the past if an investor did not have this information, their tax preparer would have to forensically recreate the basis and they may charge an additional fee for this service. This can be avoided by keeping account statements that reflect all purchases, including the reinvestment of dividends and capital gains, with your records.

Current reporting has been more on an honor system and only in the event of an IRS audit do you have to produce back up documents; however beginning in 2011 that all changes. Your investment custodian will have mandatory reporting requirements on Form 1099 to the IRS for security sales (Emergency Economic Stabilization Act of 2008). Even though this reporting will only apply to securities acquired on or after January 1, 2011 (stocks) and January 1, 2012 (mutual funds), you as the investor need the basis for investments purchased prior to those dates to provide your tax preparer.

In preparation of the upcoming IRS changes, I may contact you to ensure we have all the necessary cost basis information for the accounts we manage.

**Our favorite
holding
period is
forever.**

Warren Buffett



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To Convert or Not to Convert

That is the 2010 question of the year. As you may have heard, income limitations have been lifted for Roth IRA conversions this year. On top of that, those who convert an IRA to a Roth IRA in 2010 can spread the tax consequences over the 2011 and 2012 tax years.



One of the strategies being used to minimize the tax consequences of a conversion is converting a non-deductible IRA account. However, what's known as the cream-in-the-coffee rule applies in these situations. This means, when figuring the taxable portion of a conversion, the value of all IRA accounts (including SEP and SIMPLE IRAs) are considered in aggregate and prorated against the account being converted. Therefore, if you have a non-deductible IRA and a deductible IRA account, you are considered to be converting a prorated share of each account, even if you are only converting the non-deductible IRA account.

Given some of the favorable aspects of Roth IRA accounts (no taxes on qualified withdrawals and no required minimum distributions), it's easy to see why many are pondering the conversion question. But it's important to be informed to avoid an unexpected tax bill.

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