HOW TO GET A FINANCIAL LIFE

A workbook to help you gain control over your finances.

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PURPOSE

The goal of this workbook is to provide you with tools and motivation so you will take the necessary action to analyze various parts of your financial picture as well as provide you with some educational material for your use in understanding your entire financial life. The workbook is a compilation of current forms used in our practice and material from books written by Kathleen Cotton. It is not meant to be an in-depth resource rather it is meant to offer you the ability to organize your financial picture so that you can take steps to modify it, if necessary, or if recommended by an advisor. It is divided into six sections to help you get started on your own financial review.

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SECTION I – SETTING GOALS YOU CAN ACHIEVE

"If you don't know where you're going, you'll probably end up somewhere else."
The Peter Principle

When Alice in Wonderland asked the Cheshire Cat which path she needed to take, he answered, "*That depends a good deal on where you want to go*." "*I don't know*," said Alice. "*Then, it doesn't matter which road you take, any road will do*," replied the cat.

Floating through life without clear goals leaves your financial destination to the whims of fate or chance. Failure to set meaningful, quantifiable goals will lead you, in a financial sense, to forks in the road where, as the Cheshire Cat said, it doesn't matter which road you take since you don't know where you want to go.

The Complete Approach to Determining Goals

Dreams will not become clearer until you articulate them. And it will take action to make them a reality. You must be excited about estimating the cost of a future lifestyle, future acquisition, or specific financial destination before you will be motivated enough to take steps toward its achievement. One way to do this is to complete the following exercises.

Life Goals – Dreams, Passions, Needs, Wants

Life is often full of self-recriminations as we think about what we would have liked to do with our lives. Just about everyone has a bag full of unfulfilled dreams and memories. Take a moment, let yourself relax and let your mind reach back into the past. In particular try and remember dreams and goals you entertained, but which for one reason or another have been given up. Below you will find several incomplete sentences. Complete the sentences. Do not evaluate or censor yourself - Just turn your mind loose and bring up all the "want to's" you've ever thought about.

For each one, fill in as many sentence endings as you want to.

I always thought I would like to:

____

____

____

____

____

I used to dream about:

____

____

____

____

____

____

Before I die I would like to:

When I get the chance I am going to:

If I won the lottery, I would:

If I did not have to work, I would:

I wish I could spend more money on:

I would like to buy:

Defining Specific Goals

Now that you've had fun letting your imagination soar, it is time to classify your goals by areas of importance. Some of the goals will develop as a result of your value system and the work you did above. Other will be the result of your need for accomplishing some financial goal posts in life such as education planning, family security or retirement. If you have goals in areas other than those listed add another category to the bottom of the list.

After you have documented the goals, go back through each set and prioritize the top three in each category.

Business / Career	Priority (A to C)

Charitable Giving	Priority (A to C)

Family Relationships	Priority (A to C)

Education / Personal / Intellectual Development	Priority (A to C)

Financial - Short & Long Term Goals	Priority (A to C)

Fitness / Health	Priority (A to C)

Home / Hobbies	Priority (A to C)

Lifestyle	Priority (A to C)

Material Acquisitions	Priority (A to C)

Spiritual / Emotional Growth	Priority (A to C)

Travel / Recreation	Priority (A to C)

Now revisit those goals and put them to the test of the following 12 steps:

Twelve Steps to Setting a Great Goal:

1. Personal: Goals that express your values are more personal and more likely to spark the energy it will take to reach the goal.

2. Clean: Take a good look at the motivation behind the goal. It should be 100% sanitized (pure).

3. Safe Enough: Is the goal within your risk comfort level. Does it feel "safe"? On a scale of 1 (comfortable) and 10 (squirming), how uncomfortable might you feel if this goal were embarked on?

4. Integrated: Are the actions and tasks that are necessary to achieve this goal a natural part of your day?

5. Affordable: Can you afford both the time and the energy to devote to achieving this goal at this time in your life?

6. Energizing: Does the thought of achieving this goal give you juice or tire you from the thought?

7. Measurable**:** With what yardsticks, can this goal be measured? Tangible or intangible?

8. Trackable**:** How will you track your progress on this goal to know that has not been derailed somewhere along the way.

9. Well Thought Out: Have you reached into all your resources to evaluate this goal and it's worthiness? Is it well sourced?

10. Beneficial: How much will you really benefit from this goal? How much will those around you benefit? Which is more important?

11. Positioning**:** When you reach the goal, what will you be positioned to accomplish next?

12. Sustainable: How long will the benefits last when you reach this goal? Will it have been worth it?

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The last step in setting goals is to review all the goals you wrote down and select the top five goals you want to achieve during your lifetime. For this exercise, please exclude goals such as retiring with "X" dollars per month, retiring at age 65, sending children to college, etc. I want you to focus on your passions in life. These are goals that would be valuable to spend more time on.

1.____

2.____

3.____

4.____

5.____

SECTION II – CREATING ORDER FROM FROM CHAOS

"Everything should be made as simple as possible, but not simpler." Albert Einstein

What's the worst thing you can envision happening that would cause you to want to be organized? A household fire? A burglary? Both of those events would be fairly traumatic for anyone. If either were to happen, could you reconstruct and replace the lost information easily?

What if you became incapacitated? Who would know where your important documents are kept or what your wishes in a particular situation might be?

In the mid-80's, while teaching a class at a major corporation, I asked the group if anyone had ever experienced an event in which they wished their financial papers had been safeguarded. One hand shot up and a woman shared that just one month prior to this class her home had burned to the ground.

Though not impossible, it had been very inconvenient for her to trace the records through her various advisors. Recreating her financial documents involved numerous phone calls, time out from her busy schedule, and lengthy waits. It would still have been a difficult situation, but the process could have been expedited if she had followed these rules:

1. Stored copies or originals of important papers outside the home.

2. Created a "Money Book."

Safe Storage

If you don't have a fireproof safe, you will want to rent a safe deposit box for storing your valuables and certain papers. The safe deposit box is the best outside storage choice for safeguarding duplicates or originals of your records. If you are worried about access to the safe deposit box in case of your death, injury or illness, arrange to rent it jointly with another person. Of course, you would want the joint tenant to be a trusted friend or relative.

In your safe deposit box, place the following:

A listing of your household inventory

Including pictures or a videotape of antiques, exotic pieces of furniture, collections, and other valuables to support their worth in case you ever have to file a casualty loss report.

Your will or a copy of it.

Though it is often suggested to leave the original will in the hands of the attorney who drafted it, it's better to keep your will in the safe deposit box. When you die, the bank officials will allow your "next of kin" to enter the box in order to retrieve the will. This may vary from state-to-state, so check with your bank.

Personal documents

Including your marriage certificate, birth certificates, military discharge papers, and other papers that you feel would be irreplaceable if destroyed. There is really no right or wrong here--just make it convenient for yourself. Keep the papers you don't need to refer to frequently in the bank, and the others at home.

Properties and securities

Such as Great Aunt Emma's broach or that diamond ring you wear only during the holidays, your stock and bond certificates, bank deposit certificates, and so forth. Some people also place their insurance policies here for safekeeping.

The remainder of your documents can be kept at home in a metal strong box or safe. The important part of making the storage decision is to remember later where you put what.

The Money Book

To remember where you put what, create an organized notebook with information on your financial position and directions on where to find all your documents.

How do you organize your papers now? Does one of the following sound familiar?

The "Toss It" approach

To trash or not to trash, this is the question as you hold the paper in your hand, moving it slowly toward the waste can.

The "Later" approach

Throw the paper in a drawer and organize it later, or as a variation of this sentiment, throw the paper in a drawer and hope you'll never have to find it again.

The "Color Coordinated" approach

This is the infamous file folder with a tab. The dazzling array of colors available makes you want to forsake fame and fortune just to spend time with this system. But does it really work?

Creating a system to control the paper flow into your world is easy with nothing more than a three ring binder notebook. The role of the "Money Book" is to keep you organized, make it easy to evaluate your progress with goals, enhance your ability to stay on track with net worth growth and spending controls, and provide a document which brings all the important financial information together in one place.

It would include information on your insurance coverages, estate plans, beneficiaries, net worth, asset locations, creditor addresses, credit cards and contact numbers, social security benefit, pension benefits, and so forth. Just about anything you can think about that you want to keep readily assessable or that someone else would need to know if you couldn't tell them.

Think about the consequences should you die before taking this important step. You will have put your heirs in the unenviable position of creating order from chaos while coping with one of the most traumatic experiences in their lives.

Not only will you benefit from this step, but your significant other or children will also. Be sure you inform those who have a need to know where to find your "Money Book" in case of an emergency.

You can create your own forms. They don't have to be elaborate. The important part is to put down all the facts on paper--all the things you need to look at to evaluate where you are each year. Once you've visited with a financial advisor, these documents will be valuable in helping you update your direction semi-annually. Some advisors may even give you the forms to get started. We feel this is important and it is one reason we have included all these forms for you – you'll find a comlete packet located in the appendix section.

This is work, but it will make the next steps easier. And, it is a "legacy of love" you can provide your family. They'll thank you later.

Document Retention

This is another area where most people get confused. How long should bank statements, tax returns, investment records, real estate papers, etc. be kept?

There you are, staring at the overstuffed file cabinet. Somewhere in there are the statements your accountant has been requesting for several weeks. But if 15 minutes of digging and rifling through a file cabinet doesn't locate such documents, take heart. You're not alone. Your personal files, like those of most people are crying out for a makeover. Some people are so disorganized that they arrive at their accountants or financial planners with mounds of important financial papers in shoes and shopping bags. One financial planner related that a new client came in with a laundry basket full of papers and said, "Here's my life. Fix it." Hopefully your financial affairs aren't that out of hand.

Getting a firm grip on all those papers swirling around has more benefits than merely convenience. Tax preparers charge less when they don't have to sort through a mess. And good records can substantially cut the taxes you'll pay years from now when you withdraw money from an individual retirement account or sell a security or a home. All you need is a way to organize the papers and a big garbage can. Indeed, you'll probably find that the circular file is just the place for a lot of the papers crowding your desk drawers and closet shelves. Here are some tips on what papers to toss and what to keep as well as where to put them:

Banking

Bank statements and routine checks for groceries and the like can be thrown out after a year. (if you're not ready to part with them that soon, store them in the attic for a few years.) Use great care with canceled checks that substantiate tax deductions, verify major purchases, or that are particularly significant in other ways. Pull out those checks when you get your bank statement each month. File tax-related checks under "taxes" or specific subject files such as "charitable giving" or "medical expenses." Later on, they'll go with a copy of your completed return. File your big-purchase checks with related product warranties or with an inventory of household possessions.

Home

Keep the deed to your home in a safe-deposit box with materials that would document the condition of your home and its contents in the event of fire or other disaster. That could include a written inventory, receipts, appraisals, photographs or a home-video tour. Tax law will let you defer tax on home-sale profits up to $500,000 for a couple or $250,000 if you are single. To help protect your claim, keep a file with purchase and sale documents on every home you've owned. Keep a separate 3-ring binder with file pockets for these documents. Jot down capital improvements and save receipts, blueprints and the like. These expenditures increase the home's cost for tax purposes and decrease any taxable gain later on. Repairs and routine maintenance, such as fixing leaks or repainting the living room, do not count. Capital improvements which add value to a home, prolong its useful life or adapt it to new uses, like adding a new roof or bath, even small improvements, such as planting a few new bushes or wallpapering a dowdy old bathroom, can add up.

Individual Retirement Accounts

Keep careful records of all contributions to nondeductible IRA's. In any year you make a nondeductible contribution, the Internal Revenue Service says you should store away copies of the form 8606 you file with your return, the first page of the tax return and the annual statement you receive from the IRA trustee. Don't shred these documents as you will need them later when you start to draw from these IRAs.

Insurance

You may store your policy documents at home, but keep a list of all policies and agents in a safe-deposit box.

Investments

Have a separate 3 ring binder for your investments with a section for each mutual-fund or brokerage account, and ruthlessly weed out the mess of old annual reports, proxy statements and promotional brochures. Keep careful records of security costs to ease tax reporting and avoid overpaying tax when you sell. Mutual fund investors sometimes overstate their taxable profit by not including reinvested distributions in figuring their cost. If your year-end mutual-fund statements are cumulative, showing the full year's transactions, you can save just that one statement for each year. Keep all the "confirms" for individual security purchases in your brokerage account; keep all your brokerage statements if the year-end one isn't cumulative. Be sure to keep track of stock splits. When you sell securities, file the purchase and sale records with a copy of the tax return.

Taxes

Keep one or more files to facilitate materials needed in preparing your next return. For example, one for deductions and another for income items. At the end of tax season, put copies of your federal and state returns and all supporting documents in a single folder.

What about the mountain of old tax returns? Only the most recent year's material need to be in your active file. Put another six years' worth in the attic, and consider shredding the rest. The IRS generally has three years to examine your return, but six if there is substantial underreporting of income. (There is no time limit for fraud.)

Wills and other Estate Documents

Keep a copy of your will, durable power of attorney, trusts, etc. at home and the originals in the safe deposit box. Many states limit access to safe-deposit boxes when a holder dies – in that case, you might want to leave a copy with your attorney. Destroy old wills and drafts of the document to avoid confusion and disputes among heirs.

Other

Look for papers that you need, but rarely consult; some of those can be moved to "deep storage" in your attic or elsewhere.

SECTION III – UNDERSTANDING YOUR SPENDING CHOICES

> *"What each of us calls our necessary expenses will always grow to equal our incomes unless we protest the contrary."* *The Richest Man in Babylon*

There are three good reasons to perform an audit of your outflow of cash.

1. The most common – you need to cut down on expenses in order to save more toward a future goal – education expenses, retirement income, or a major purchase.

2. Less common but just as important – you want to redirect your expenses so that you are spending in areas where the enjoyment is the greatest. In this case, you seek to discover where money has evaporated and recapture it so that it can be used for some other activity in your life – currently or in the future.

3. Last, but not least, you want to determine a reasonable retirement budget so that you can measure the adequacy of your resources against your expected needs.

Some people will opt out of this exercise because they fall into one of the following groups:

1. Their savings for future goals is more than adequate and they have discretionary income left over therefore, their spending habits never become a deterrant to their future goals.

2. They are spending everything they bring in thus they are quite aware of what their lifestyle is consuming.

3. They have arrived at retirement and simply want to know what they can spend as opposed to what they want to spend on their lifestyle. These individuals are willing to make their life fit into the resource instead of seeking to create an income resource which allows them to live their planned lifestyle.

Definitely, if you are going to develop a plan for spending it should:

1. Develop as a result of your own experiences.

2. Fit within your income resources and expense requirements.

3. Be customized so that your goals can be addressed.

Some individuals are very good at making ends meet while others who have access to the same income are often pinched for money. Generally, we would all like to be described as the former rather than the latter. Even if you don't feel you overspend on a current basis, unless something is being put aside for the future, you are unlikely to be very satisfied, on a current basis or future basis, with your financial progress.

Before we go into the mechanics of cash flow management, it might be helpful for you (and your significant other) to complete the following exercise. Rank the statements according to the degree of urgency you feel. If you're part of a pair, compare notes to see where your attitudes differ.

Do You Control Your Money or Does It Control You?

Circle the number under the column which reflects your attitude.

KEY: A = Not at all like me; B = Marginally like me; C = Neutral; D = Very much like me; E = Describes me perfectly

	A	B	C	D	E
1. I like to know where every penny goes.	1	2	4	4	5
2. I think it is important to keep good records.	1	2	3	4	5
3. My charge balances don't concern me.	5	4	3	2	1
4. I have guidelines for spending in certain areas.	1	2	3	4	5
5. I enjoy material items and price is not an issue.	5	4	3	2	1
6. When it comes to gift giving, I work from a plan.	1	2	3	4	5
7. I think it is good to use charge cards but pay them as I go.	1	2	3	4	5
8. It is very important for me to keep up socially with my friends no matter what it costs.	5	4	3	2	1
9. I am concerned about my ability to save and invest.	1	2	3	4	5
10. I am an impulsive spender	5	4	3	2	1
11. I often am late with my debt payments.	5	4	3	2	1
12. I watch the papers weekly for shopping bargains.	1	2	3	4	5

13. I don't know where my pocket cash disappears. 5 4 3 2 1

14. When I call long distance I don't think about the charges. 5 4 3 2 1

15. When I get a pay raise, I still never seem to have extra dollars. 5 4 3 2 1

Add up your score. Look at the following descriptions below and match your score to the appropriate paragraph to your score.

SCORE

15-35 - You have difficulty dealing with money issues and have not fully, if at all, defined your spending priorities. Money has never been your favorite subject and, in fact, you don't think much about it unless circumstances such as money-end before month-end, arguments over money, or debtor notices, demand your attention. You could use a spending overhaul starting with defining spending behaviors.

35-55 - You seem to get by OK. True, you have moments when you evaluate your income level and wonder why it's not being accumulated, but generally speaking, you're not overspending your income. If asked, you could estimate your expenses fairly accurately. You probably have taken stabs at accumulating money, but have never put enough systems in place so that it was accomplished. You can do better, if properly guided.

55-75 - You either are in control of your income and outgo, or you're very close to it. Your nature is such that you demand accuracy and accountability with your personal recordkeeping. Your potential to accumulate money is great and you may have already taken opportunity of your abilities by saving and investing. Your biggest challenge may be determining where to place the dollars that you are savings.

You will have found this exercise interesting if it "hit the nail on the head! If so, you will not be the first to identify with it.

Mandatory Versus Discretionary Spending

We often confuse wants and needs, especially when we're rationalizing an expenditure. It's easy to tell the difference. We all need certain things in order to sustain our lifestyle—food, clothing, shelter, utiliites, transportation, medical/dental/auto/ property/life insurance coverages, household and personal supplies. Other things we simply want—more steak dinners and pizzas (especially when we don't have to cook them), vacations to Hawaii and Europe, new living room furniture, sailboats, campers, a new VCR or camcorder and so forth. Understanding how, why and where you spend money is critical to success in this area. The ten steps which follow will get you started on a more productive future.

10 Easy Steps to Cash Management

1. Start by estimating your committed expenses and subtract these from your net income. The remaining dollars are available to spread across your somewhat discretionary (necessary but controllable to a degree) and very discretionary spending items such as entertainment, travel, eating out, and so forth. These expenses can be immediately impacted by restructuring or reduction. This is the easy way to start to see your spending picture and represents what you think has occurred. You can use the cash flow worksheet to do this.

2. Now, get out a pencil and paper and audit last year's real spending by reviewing and categorizing checkbook entries, receipts, charge card statements, cash machine receipts, and other reminders of where your money has gone. Of course if you use the computer and a program like Microsoft Money or Quicken, you'll be able to produce this information effortlessly. If not, use the second copy of Worksheet No. 1 to record the monthly average of your yearly expenditures in all categories. What was your income over that same period of time averaged by month? Was there anything left? If it looks like there was an excess on paper, did you shift that excess to your net worth? If not, keep reading.

3. Now, visualize where you want to be in five years—will it still be struggling to make ends meet or will you be on the way to building net worth? What are your goals (more about this later). If you are to put more money aside for the future, retire debt early, and make goals a reality—putting the brakes on excessive spending is mandatory.

4. Using the cashflow worksheet as a guide, set up 13 columns on a piece of graph paper with headings as follows (Expenses, January, February...December). Across the left side then use Worksheet #1's categories and try and figure out just what the variances are from month to month. Don't forget to include quarterly, semi-annual or annual expenses you incur such as auto licenses, insurance premiums, property taxes, gifts, the IRS, etc. Now you might want to go back and make adjustments to your original expense estimates.

5. Immediately establish three cash management accounts:

   A. A checking account for mandatory and committed plus the necessary but somewhat discretionary expenses.

   B. A cash accumulation account (most people call it an emergency fund) – ideally a tax free or taxable money market account.

   C. A second money market or savings account for sporadic expenses. This is your "come and go" account. Some people will establish several of these accounts – each one dedicated to a specific purpose such as property taxes, gift funding, vacation accumulation, etc.

6. Now that your plan is complete, let's make it easy to administer

   A. Have your necessary savings (401(k) plan deposit, IRA investment, or other investment savings) withheld automatically from your paycheck.

B. Deposit the remainder of your paycheck into the cash accumulation account (this is the middle account listed above).

C. Now write two checks, the first should equal the total of your desired monthly budget. Deposit it in your checking account, but don't deposit more than you absolutely need. The second check should equal the monthly amount that equals your annual sporadic expenses such as insurances, property taxes, vacation, xmas savings, etc. You will have identified these by completing item No. 4 above. Put this check in the "come and go" account(s).

D. Any left over money can accumulate in the cash accumulation account for future assignment.

7. If your spending and investment requirements require a careful watch to insure you remain within planned limits, monitor your somewhat and purely discretionary spending for at least 12 months, or longer. Every three months evaluate these results. Where did you overspend and why? Make appropriate changes in levels of discretionary spending goals in order to customize your spending plan to your needs.

8. Faithfully monitor any depletion of your savings or investment accounts. Note what you did with that money—paid an unexpected medical bill, extra food, auto maintenance, home repair, vacation, etc.? After a while, you may spot a trend which indicates you are underbudgeted in one or more areas. In that case, it's time to adjust your spending targets and shift dollars from overfunded to underfunded areas.

9. Some people do better at managing their monthly cashflow when they assign certain fixed expenses to specific weekly, bi-weekly or semi-monthly pay periods. If it helps you to visually strategize your spending, use this technique to dedicate specific income to specific outgo.

10. Reward yourself with a tangible treat (but don't charge it) when you have accomplished 12 months of deficit free spending.

As you strive to complete the expense worksheet, realize that each of your expense items will fall in one of three areas: Committed, Somewhat Discretionary and Discretionary. Most of the discretionary areas could be eliminated if necessary, and the somewhat discretionary may be trimmed. It will be helpful if you inventory your credit card statements for the last 12 months to identify just how much is being spend in which categories. It is better to break out those expenses than to lump them in as credit card payments of identified expenses.

The purpose of this exercise is to find and identify lost dollars that can be rechanneled into net worth growth—future spending—and used to satisfy your financial objectives. These objectives might include retiring early, sending your children to the college of their dreams, or just ferreting out a few extra dollars to blow each week - or all three of these goals. With a little planning, it could be possible to have your cake and eat it too!

Expense Item	Current Monthly Average	Desired Monthly Average	Retirement Monthly Average
COMMITTED EXPENSES			
Utilities & Telephone			
Electricity			
Natural Gas/Oil			
Water			
Sewer			
Garbage			
Cable TV			
Telephone			
Cell Phone/Pager			
Security System			
Sub-Total			
Property & Liability Ins.			
Homeowners Ins.			
Auto Insurance			
Umbrella Liability Ins.			
Jewelry Ins.			
Other Asset Insurance			
Sub-Total			
Medical/Dental Insurance			
Medical Ins. Premiums			
Vision Insurance			
Dental Ins. Premiums			
Sub-Total			
SOMEWHAT DISCRETIONARY EXPENSES			
Groceries			
Groceries/Liquor			
At Home Entertainment			
Other			
Sub-Total			

Expense Item	Current Monthly Average	Desired Monthly Average	Retirement Monthly Average
Transportation			
Gas			
Auto Repairs			
Oil/Lube & Winterize			
Parking/Commute Exp.			
Auto Licenses			
Miscellaneous/Other			
Sub-Total			
Housing Supplies/Maintenance			
Yard Upkeep			
Maintenance & Repair			
Linens & Supplies			
Appliance Replacement			
Fireplace Wood or Pellets			
Sub-Total			
Uninsured Medical/Dental			
Dental/Ortho			
Vision			
Prescriptions			
Chiropractor			
Therapists			
Medical			
Other			
Sub-Total			
Life, Disability, L.T. Care Ins.			
Life Insurance Premiums			
Disability Premiums			
Long Term Care Premiums			
Other Ins.			
Sub-Total			

Expense Item	Current Monthly Average	Desired Monthly Average	Retirement Monthly Average
Personal Expenses			
Clothing			
Laundry/Dry Cleaning			
Alterations/Tailoring			
Shoe Repairs			
Cosmetics			
Hairdresser/Barber			
Toiletries			
Sub-Total			
Professional Fees			
Legal Fees			
Tax & Accounting Services			
Financial Planning			
Investment Supervision			
Sub-Total			
DISCRETIONARY EXPENSES			
Recreation/Entertainment			
Dining Out			
Movies/Theater Concerts			
Club Dues/Expenses			
Hobbies			
Books/Photos/Music			
Subscriptions			
Magazines/Newspapers			
Other			
Other			
Sub-Total			
Contributions/Gifts			
Christmas			
Birthdays			
Weddings/Anniversary			
Baby Showers			
Greeting Cards			
Charity/church			
Sub-Total			

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Expense Item	Current Monthly Average	Desired Monthly Average	Retirement Monthly Average
Household			
Furnishings			
Housekeeper			
Sub-Total			
Pets and Vets			
Pet Medical Care			
Pet Food			
Pet Supplies			
Sub-Total			
Miscellanoues			
Home Office Supplies			
Cigarettes			
Other			
Other			
Other			
Other			
Sub-Total			
Annual Lifestyle Total			
TERM EXPENSES			
Housing			
Mortgage or Rent			
Association/Condo Dues			
Property Taxes			
Sub-Total			
Other Real Estate			
Mortgage			
Property Taxes			
Sub-Total			
Savings & Investments			
Retirement - 401(k)			
Retirement – IRA			
Other			
Sub-Total			

Expense Item	Current Monthly Average	Desired Monthly Average	Retirement Monthly Average
Current Education Costs			
Tuition for Self	______	______	______
Tuition for Children	______	______	______
Books/Supplies	______	______	______
Other			
Sub-Total			
All Consumer Debt			
Auto Loan Payments	______	______	______
Credit Card Pmt. #______	______	______	______
Credit Card Pmt. #______	______	______	______
Credit Card Pmt. #______	______	______	______
Credit Card Pmt. #______	______	______	______
Credit Card Pmt. #______	______	______	______
Credit Card Pmt. #______	______	______	______
Credit Card Pmt #______	______	______	______
Sub-Total			
Children's Expenses			
School Expenses	______	______	______
Eating Out/Lunches	______	______	______
Groceries	______	______	______
Allowance	______	______	______
Babysitting	______	______	______
Instruction/Sports	______	______	______
Clothing	______	______	______
Barber/Hairdresser	______	______	______
Movie/Concert/Theatre	______	______	______
Birthday Parties	______	______	______
Toys/Books/Records	______	______	______
Transportion Expense	______	______	______
Other	______	______	______
Other			
Sub-Total			

Expense Item	Current Monthly Average	Desired Monthly Average	Retirement Monthly Average
Vacations & Travel			
Semi or Annual Vacations			
Weekend Trips			
Sub-Total			
Term Total			
Grand Total			

Total Income From All Sources: $____________________
-Total Expense Items $____________________

Postive or Negative Outcome $____________________

How did you do? Hopefully, you found the information enlightening. This discovery mission served a good purpose if you found significant room for improvement. If you found that your cashflow was negative, it may be as a result of investing too heavily in "plastic."

Controlling the Open Ended Categories

You may want to monitor your somewhat and purely discretionary expense areas such as vacations, entertainment, food, clothing, personal care, allowances, etc. The easiest way I know to accomplish that is to use a computer program like Quicken to track your expenses. If you do not use a computer, use Worksheet No. 2, xerox it and set up a looseleaf notebook for tracking purposes. The form is self-explanatory and it will help you limit spending in one area so that you can devote extra dollars to another priority (such as future spending—retirement, education funding, travel, asset purchases).

As an example, you could use this control device to monitor your clothing account which has a $200/month allotment. Throughout the month whenever a clothing item is purchased, it is recorded with the new balance carried forward. If the account is dry by mid-month, the clothing purchases simply cease until the cycle starts again.

Variable/Discretionary Expense Control Sheets

Expense Category ______________________ Budgeted $$$ Amount ______________________

Date	Expenditure Item	Remaining Balance

INSTRUCTIONS: For every spending category you need to track, use this page to help you track your spending in each discretionary category.

Now, that's it in a nutshell—but how do you deal with the realities of everyday life? We don't necessarily want you to be a penny pincher, rather we prefer to see you enjoying money today and money tomorrow. Debt reduction and cash reserves and investment accumulation is the objective.

Here are some specific ideas to reduce your outgo and help you control consumer debt.

Spending Tips

- Write checks for every item above $3.00. Account for allowances by keeping receipts. Catgegorize your credit card expenses, cash and checking activity, and record monthly.
- Eliminate some or all discretionary items if you are in a crisis situation.
- Spend less for certain expenses such as cuttng back on gift giving, purchasing convenience foods, first run movies, etc.
- If you can, make use of your own skills instead of paying for services (such as washing your own car, chopping your own wood, home repairs).
- Bring your lunch from home rather than eating out.
- Take advantage of free community services for education and recreation (such as concerts, parks, lectures, libraries, recreational centers and art exhibits).
- Plan the year's purchases - even next year's Christmas gifts so you can look for values throughout the year.
- Cut down or eliminate the so-called "sin" habits such as cigarettes, alcohol and gambling (the lottery).
- Don't get suckered by free promotions that give you "free" gifts with a purchase. For example, if you want a clock radio, football telephone, or whatever, buy it rather than subscribe to a magazine you're not particulary interested in.
- Try and appeal your property tax assessment if it appears unfair.

Curing Credit Card Blues

With your spending now under control, it's time to look at "plastic.". Consumer interest is no longer tax deductible and is certainly not economical. If you want to make 15-18% on your money, it's easy—simply pay off consumer debt. Wouldn't it be nice to loan out your money and receive 18% interest on it? If you could, you'd be well on your way to wealth and prosperity.

Credit cards can be a convenience, but they can also be a dangerous way of life. I've counseled many, many people who have obligated themselves with an overwhelming level of fixed credit payments. I remember one couple particularly well.

John and Georgia were card addicts who came to see me several years ago. They suffered the plight of many upper income wage earners - "incomitis." They not only lived up to their income, they used 32% of it to fund consumer debts. This wasn't a deprivation to them necessarily, as their income levels allowed for luxuries, but it was what I called underwater debt. It kept them from doing other more important things with their money such as adequately protecting their family from the risks of life and saving for their impending retirement. This family eventually paid off the debt and, as a result, created much more flexibility with their spending choices.

If you want to find out if you are over your head in debt, calculate your Consumer Debt Ratio. This ratio should be no more than 15% of your net income. The lower the better. Start by listing the mandatory minimum debt payments required on all loans with the exception of your home mortgage or other investment oriented loans. Add the the total and divide that number by your monthly income after taxes. If you are carrying $300 of debt payments per month and your after-tax income is $2,000, the equation is as follows:

$300 / $2,000 = <15%

Many people who are not over their heads according to the "rule of thumb," nevertheless, suffer from a monthly cash flow crunch. Consider that 15% of a net income of $5,000 per month may leave more than enough money on which to live comfortably, but 15% of $1,500 per month cuts the margin too close to necessities.

Charging Tips

- Visualize three other things that you can do with your money before you charge an item.
- Reduce the number of credit cards you carry - keep just one major credit card and a couple of minors. Use them just for essential purchases.
- Pay off your credit card balances and keep them paid off monthly.
- Write all charges in your checkbook and subtract the amount of each and every charge from the balance. That's a very visual way to see how easy it is to spend with plastic. If you follow this advice, at the end of the month, you should have adequate dollars left over in your checkbook to pay off the credit charges.

Debt Reduction

Reducing consumer debt increases net worth, but which debt should be reduced first? Logic will lead you to the conclusion that the answer is the highest interest loans—VISA, Mastercharge, Sears, Penneys, etc.

I believe there is another way to attack the problem that works better psychologically—pay off the smallest balance first.

It's hard work. You may have to scrimp on other items in order to reduce your debt burden and it will be easy to become discouraged—so don't pick the largest balance. Reduce the debts from the

smallest up to the largest and every time you pay off a balance completely, reward yourself—but not by using a credit card.

If the idea of reducing your debt burden by systematic pay-offs is overwhelming, perhaps you need to consider paying off the high interest loans with less expensive money.

Here are some potential sources of lower cost loans:

1. Borrow against securities in a brokerage account. You can deduct the interest as long as it doesn't exceed your net investment income.

1. If you have cash value life insurance, check the cash balance. This may be a source of low interest loans which you never have to pay back. Loans are simply deducted from the death benefit.

2. You could refinance your primary home mortgage or add a home equity loan as a second mortgage. These are fully deductible within certain limitations.

3. Borrow against your bank certificate of deposit. A collaterized passbook loan may be only one or two percent more than your bank deposit may be earning. A line of credit tied to the Prime Rate is option.

4. Borrow against your retirement accounts (careful, this is sacred money). You may be able to access money in certain pension plans such as a 401K or employee thrift plan. These loans are also not deductible, but can be one of your lower interest options.

Do You Need Help?

As you've read, there are a multitude of ways to improve your cashflow. The first step is to face the music and evaluate your situation realistically. There are two kinds of people who need help with their money:

1. Those who are in a crisis—over their head in debt and unable to purchase even essential items due to poor money management or other circumstances out of their control. These indviduals are best advised to contact the Consumer Credit Counseling Service in their area. This non-profit service specializes in crisis management.

2. Those who know they could do a better job of managing their money. Their objective is to save and invest for the future.

In evaluating whether or not you need an ongoing cash management program, think about your strengths and weaknesses. Do you have the ability and want to manage your cashflow? Good, what you've read may help you with that task.

Remember "When it comes to saving money, some people will stop at nothing." Don't let it be you!

SECTION IV – NET WORTH ANALYSIS – WHAT YOU OWN MINUS WHAT YOU OWE

"He who would climb the ladder must begin at the bottom." English Proverb

Though not an immediately rewarding task, organizing one's financial papers is the first step to take to start clarifying options and defining financial realities. We're going to focus right now on getting a detailed inventory accomplished of your assets and liabilities so that we can create a current net worth. From this information, we will also be able to draft a current asset allocation depicting your planned or unplanned investment policy.

Prepare for this exercise by gathering together all your paperwork relating to assets or liabilities

Find your last statement from banks, brokerage, IRA accounts, your mortgage lender, look for information on other debts – the more information you have at hand, the easier this job will be. It will be very important to make copies of your statements so that the breaktown of the totals can be easily ascertained (for example does your brokerage account hold stocks, bonds, cash, etc.). Bring forth your last benefit statement on employer held investments (401(k) plans, profit sharing, ESOPs, 403(b)s, etc.). Do you owe any tax – if so, this should be stated as a liability.

On a year to year basis, it is very enlightening to look back at past annual reports of your net worth and see progress (hopefully) being made. You'll be surprised at just how much motivation this will supply to keep you dedicated to growing the bottom line number – the net worth.

1. ASSETS

The following section is for you to record your assets. List all retirement plans (IRA, 401k, 403b, pensions, etc.) in the separate section on page 3.

Cash and Cash Equivalents (checking, savings, money market funds, certificates of deposit)

Institution	Type[1]	Owner[2]	Tax Exempt (y/n)	Annual Interest Rate	Maturity Date (if applicable)	Current Balance
1.				%	/ /	$
2.				%	/ /	$
3.				%	/ /	$
4.				%	/ /	$
5.				%	/ /	$
6.				%	/ /	$
7.				%	/ /	$
8.				%	/ /	$
9.				%	/ /	$
10.				%	/ /	$

Fixed Income Securities (bonds, T bills, notes receivable) (List mutual funds on next page)

Identification	Qty	Type[3]	Owner[2]	Tax Ex. (y/n)	Date Acquired	Maturity Date	Annual Int Rate	Current Value
1.					/ /	/ /	%	$
2.					/ /	/ /	%	$
3.					/ /	/ /	%	$
4.					/ /	/ /	%	$
5.					/ /	/ /	%	$
6.					/ /	/ /	%	$
7.					/ /	/ /	%	$
8.					/ /	/ /	%	$
9.					/ /	/ /	%	$
10.					/ /	/ /	%	$

Equity Securities (common & preferred stock, options, limited partnerships) (List mutual funds on next page)

Security Name	Qty	Type[4]	Owner[2]	Date Acquired	Dividend per Share[5]	Current Price	Current Value
1.				/ /	$	$	$
2.				/ /	$	$	$
3.				/ /	$	$	$
4.				/ /	$	$	$
5.				/ /	$	$	$
6.				/ /	$	$	$
7.				/ /	$	$	$
8.				/ /	$	$	$
9.				/ /	$	$	$
10.				/ /	$	$	$

Investment Real Estate

Type of Property [6]	Owner[2]	Debt/ Mtge.	Gross Income	Total Hard Expenses	Purchase Price	Market Value
1.		Ref in #2			$	$
2.		Ref.in #2			$	$
3.		Ref in #2			$	$
4.		Ref.in #2			$	$
5.		Ref.in #2			$	$

Mutual Funds (stocks, bonds, balanced)

Fund Company and Fund Name	Qty/ Shares	Owner [2]	Type [7]	Date Acquired	Current Price	Current Value
1.				/ /	$	$
2.				/ /	$	$
3.				/ /	$	$
4.				/ /	$	$
5.				/ /	$	$
6.				/ /	$	$
7.				/ /	$	$
8.				/ /	$	$
9.				/ /	$	$
10.				/ /	$	$
11.				/ /	$	$
12.				/ /	$	$
13.				/ /	$	$
14.				/ /	$	$
15.				/ /	$	$

Retirement Accounts (IRA, 401k, 403b, 457, pension, profit sharing)

Company	Inv. Type [8]	Plan Type [9]	Owner [2]	Active (y/n)	Total Value	Vested Value
1.					$	$
2.					$	$
3.					$	$
4.					$	$
5.					$	$
6.					$	$
7.					$	$
8.					$	$
9.					$	$
10.					$	$

Use Assets (all other assets)

Item	Description	Owner[2]	Date Acquired	Purchase Price	Fair Market Value
Domicile Residence			/ /	$	$
Other Residence			/ /	$	$
Household contents			/ /		$
Vehicle 1			/ /		$
Vehicle 2			/ /		$
Jewelry			/ /		$
Art/Antiques			/ /		$
Boat/RV Vehicles			/ /		$
Recreational Time Share			/ /		$

2. LIABILITIES

Type[10]	Creditor	Owner[2]	Mo. & Year Acquired	Term[11]	Int. Rate	Pmt Freq - uency[12]	Pmt Amount	Original Loan Amount	Current Loan Balance
			/ /		%		$	$	$
			/ /		%		$	$	$
			/ /		%		$	$	$
			/ /		%		$	$	$
			/ /		%		$	$	$
			/ /		%		$	$	$
			/ /		%		$	$	$
			/ /		%		$	$	$

Notes:

1. *Cash, Checking, Savings, Money Market, CD*
2. *Self, Spouse, Joint Tenancy, Tenant in Common, Community Property*
3. *Treasury bonds, Treasury Bills, Treasury Notes, Municipal Bonds, Corporate Bonds, Notes Receivable*
4. *Common Stock, Preferred Stock, Options, Closely held stock, Real estate, Commodity, Oil & Gas, Precious Metals*
5. *Past average annual dividend per share*
6. *Land, commercial or residential real estate.*
7. *International, growth, income, bond, balanced, municipal bond, indicate if qualified retirement plan (IRA, 401K etc.)*
8. *Company stock, mutual funds, stocks, bonds etc.*
9. *Pension, profit sharing, SEP, IRA, 401(k), Keogh etc.*
10. *Home Mortgage, Home Equity, Vehicle, Credit Cards, Installment, Margin Account Loans, Taxes Payable etc.*
11. *Number of months, years etc. original loan payments were due over*
12. *Weekly, Monthly, Annually etc.*

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SECTION V – DETERMINE YOUR RISK PROFILE AND INVESTMENT OBJECTIVES

The first step in the asset management process is to determine your investor profile. This profile will help define important factors such as your investment objectives, time horizon, and your attitudes toward investing. This profile will help build the base of information needed to move you to the next step in the asset management process -- the selection of an appropriate asset allocation policy. To complete this profile, answer each question by circling the number in the right hand column that best matches your personal situation.

Investment Objectives

Which of the following best describes your investment objectives?

- Preserving principal and earning a moderate amount of current income 1
- Generating a high amount of current income 2
- Generating some current income and growing my assets 3
- Growing my assets substantially 4

Five years from now, what do you expect your standard of living to be?

- The same as it is now 1
- Somewhat better than it is now 2
- Substantially greater than it is today 3

Ten years from now, what do you expect your portfolio value to be?

- The same as or a little more than it is today 1
- Moderately greater than it is today 2
- Substantially greater than it is today 3

What is your current income requirement (interest plus dividends) from this portfolio?

- More than 4% 1
- 2% to 4% 2
- 0% to 2% 3

What do you want to do with the income generated by your portfolio?

- Receive all income 1
- Receive some and reinvest some 2
- Reinvest all income 3

INVESTMENT OBJECTIVES TOTAL_____

Time Horizon

What is the time frame for you to achieve your financial goals?

- 0-5 years 1
- 5-10 years 2
- 10-15 years 5
- 5 years or longer 10

What is your primary financial goal?

- Wealth preservation or emergency savings 1
- Education funding 2
- Retirement planning 5
- Long term wealth accumulation 10

What is your age?

- Over 56 1
- From 46-55 2
- From 36-45 5
- From 20-35 10

TIME HORIZON TOTAL_________

Risk Tolerance

You just received a substantial sum of money. How would you invest it?

- I would invest in something that offered moderate current income and was very safe 1
- I would invest in something that offered high current income with a moderate amount of risk 2
- I would invest in something that offered high total return (current income plus capital appreciation) with a moderately high amount of risk. 3
- I would invest in something that offered substantial capital appreciation even though it had a high amount of risk 4

Which of the following statements best describes your reaction if the value of your portfolio suddenly declined 15%?

- I would be very concerned because I can't accept fluctuations in the value 1
- If the amount of income I received was unaffected, it would not bother me 2
- I invest for long term growth but would be concerned about even a temporary decline 3
- I invest for long term growth and accept temporary fluctuations due to market influences 4

Which of the following investments would you feel most comfortable owning?

➢ Certificates of Deposit	1
➢ U.S. Government Securities	2
➢ Stocks of older, established companies	3
➢ Stocks of newer, growing companies	4

How optimistic are you about the long term prospects for the economy?

➢ Pessimistic	1
➢ Unsure	2
➢ Somewhat optimistic	3
➢ Very optimistic	4

Which of the following best describes your attitude about investments outside the U.S.?

➢ Pessimistic	1
➢ Unsure	2
➢ May provide attractive investment opportunities	3
➢ Provide very attractive investment opportunities	4

RISK TOLERANCE TOTAL_________

Investor's Score

Investment Objectives Total __________
Time Horizon Total __________
Risk Tolerance Total __________

TOTAL SCORE_________

Investor's Total Score	**Recommended Asset Allocation Model**
25-35	Conservative growth (35% equities)
35-45	Balanced (55%equities)
45-55	Growth with Income (70% equities)
55 +	Growth (90-100% equities)

Asset Allocation and Your Investment Policy

Asset allocation is a very important part of making investment recommendations and it is the starting point for more detailed individual security analysis. We believe that this is the primary determinant of portfolio returns. There are many ways to begin to craft an asset allocation for yourself.

- You can try and determine how much risk you are comfortable with and create a portfolio tailored to stay within your risk boundaries. Generally we describe the attempt to describe these portfolios by defining them as conservative, growth and income, growth or aggressive growth.

- You can nail down how many years it will be before income is required from the portfolio and establish a fall back position of cash and fixed income to provide that sum. This would lead you to the conclusion that if you did not need any income for 10 years or more, then you could be primarily invested in the equities market with that money.

- If income is necessary now, you can build a short ladder of bonds to provide five-six years of distributions for income and hold the remainder in equities, rebalancing the portfolio to replace withdrawn income when equity markets are favorable.

Building a strategic mix of investments is not like completing paint by number picture. There's no clear set of directions that anyone can apply to produce a predictable financial results unless you want to keep all your money in the bank. Often clients will ask what is the best way to invest my money? This is the big question but it has no single answer. Like life, investing is a series of trade-offs. One of those trade-offs is understanding that higher returns go hand-in-hand with increased portfolio volatility.

Another trade-off is allocating a portfolio so sudden changes in the economy do not destroy investment strategies. Where is the current economy? Where will it be next month or next year? Will interest rates rise or decrease? Is the stock market undervalued and the bull poised to continue running or will earning reports cause it to fall off the cliff? What steps should be taken now? These are difficult questions to answer. Recessions can creep up on you. The stock market can drop 500 points in a day or gain 700 points in a month and, generally, make a fool out of anyone who tries to outguess it. In addition, the Federal Reserve Board can lower or raise the discount rate at will.

I Don't Know Can be Your Best Answer

Bottom line, we don't know anything for certain, therefore, we prepare for a myriad of possibilities. Because we don't know if interest rates will rise or fall, we buy some bonds but still keep some money in the bank. If interest rates fall, the bonds will prosper, if interest rates rise, the money market and short term CD money will be your cushion. If strong earnings continue, growth stocks may florish but just in case they don't some good old fashioned value stocks will soften the volatility of your stock portfolio. Today's darling stock sector may be tomorrow's junk pile so to protect the portfolio, the equity dollars are spread over small to large stocks, domestic to international, and invested in diversified professionally managed portfolios.

Placing bets all over the board in this manner would be a loser's strategy if you were gambling at a casino. Unlike gambling, however, investing is not a zero sum game. So, your I-don't-know portfolio can earn a very worthwhile return.

The financial climate won't always be friendly to every type of investment. But since you're so well diversified, your risk is cushioned should one or another category hit a bad patch. When you describe your investments to friends or relatives, they will probably still have other questions on their minds: Aren't the Internet stocks overpriced? What's going to happen in Washington?

Tell them you don't know but you're ready for any outcome. You won't make the home runs but you will get on base!

What Kind of Risk Taker Are You?

As a warm up exercise, here is a little quiz for you to take which will give you a glimpse of what kind of an investor you might be – from conservative to aggressive.

Choose one answer for each question.

1. An investment loses 15% of its value in a market correction a month after you buy it. Assuming none of the fundamentals have changed, do you:
   (a) Sit tight and wait for it to journey back up?
   (b) Sell it and rid yourself of further sleepless nights if it continues to decline?
   (c) Buy more - if it looked good at the original price, it looks even better now?

2. A month after you purchase it, the value of your investment suddenly skyrockets by 40%. Assuming you can't find any further information, what do you do?
   (a) Sell it.
   (b) Hold it on the expectation of further gain.
   (c) Buy more - it will probably go higher.

3. Which would you have rather done:
   (a) Invested in an aggressive-growth fund that appreciated very little in six months.
   (b) Invested in a money market fund only to see the aggressive you were thinking about double in value in six months.

4. Would you feel better if:
   (a) You doubled your money in an equity investment.
   (b) Your money market fund investment saved you from losing half your money in a market slide.

5. Which would make you happiest?
   (a) You win $100,000 in a publisher's contest.
   (b) You inherit $100,000 from a rich relative.
   (c) You earn $100,000 by risking $2,000 in the options market.
   (d) Any of the above - you're happy with the $100,000, no matter how it ended up in your wallet.

6. The apartment building where you live is being converted to condominiums. You can either buy your unit for $80,000 or sell the option for $20,000. The market value of the condo is $120,000. You know that if you buy the condo it might take six months to sell, the monthly carrying cost is $1,200, and you'd have to borrow the down payment for a mortgage. You don't want to live in the building. What do you
   (a) Take the $20,000,
   (b) Buy the unit and then sell it.

7. You inherit your uncle's $100,000 house, free of any mortgage. Although the house is in a fashionable neighborhood and can be expected to appreciate at a rate faster than inflation, it has deteriorated badly. It would net $1,000 monthly if rented as is, or $1,500 per month if renovated. The renovations could be financed by a mortgage on the property. You would:
   (a) Sell the house.
   (b) Rent it as is.
   (c) Make the necessary renovations, and then rent it.

8. You work for a small but thriving privately held electronics company. The company is raising money by selling stock to its employees. Management plans to take the company public, but not for four or more years. If you buy stock, you will not be allowed to sell until shares are traded publicly. In the meantime, the stock will pay no dividends. But when the company goes public, the shares could trade for 10-20 times what you paid. How much of an investment would you make?
   (a) None at all.
   (b) One month's salary.
   (c) Three months' salary.
   (d) Six months' salary.

9. Your long-time neighbor, an experienced petroleum geologist, is assembling a group of investors (of which he is one) to fund an exploratory oil well, which could pay 50 to 100 times its investment. If the well is dry, the entire investment is worthless. Your friend estimates the chances of success at only 20%. What would you invest?
   (a) Nothing at all.
   (b) One month's salary.
   (c) Three months' salary.
   (d) Six months' salary.

10. You learn that several commercial building developers are seriously looking at undeveloped land in a certain location. You are offered an option to buy a choice parcel of that land, The cost is about two months' salary and you calculate the gain to be ten months' salary. Do you:
   (a) Purchase the option.
   (b) Let it slide - it's not for you.

11. You are on a TV game show and can choose one of the following. Which would you take?
   (a) $1,000 in cash.
   (b) A 50% chance at $4,000.
   (c) A 20% chance at $10,000.
   (d) A 5% chance at $100,000.

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12. It's 1989, and inflation is returning. Hard assets such as precious metals, collectibles and real estate are expected to keep pace with inflation. Your assets are now all in long-term bonds. What would you do?
    (a) Hold the bonds.
    (b) Sell the bonds, put half the proceeds into money funds and the other half into hard assets.
    (c) Sell the bonds and put the total proceeds into hard assets.
    (d) Sell the bonds, put all the money into hard assets and borrow additional money to buy more,

13. You've lost $500 at the blackjack table in Atlantic City. How much more are you prepared to lose to win the $500 back?
    (a) Nothing. You quit now,
    (b) $100.
    (c) $250.
    (d) $500.
    (e) More than $500.

Total your score, using the point system listed below for each answer you gave.

1.	(a) 3	(b) 1	(c) 4		
2.	(a) 1	(b) 3	(c) 4		
3.	(a) 1	(b) 3			
4.	(a) 2	(b) 1			
5.	(a) 2	(b) 1	(c) 4	(d) 1	
6.	(a) 1	(b) 2			
7.	(a) 1	(b) 2	(c) 3		
8.	(a) 1	(b) 2	(c) 4	(d) 6	
9.	(a) 1	(b) 3	(c) 6	(d) 9	
10.	(a) 3	(b) 1			
11.	(a) 1	(b) 3	(c) 5	(d) 9	
12.	(a) 1	(b) 2	(c) 3	(d) 4	
13.	(a) 1	(b) 2	(c) 4	(d) 6	(e) 8

Below 21: You are a conservative investor who's allergic to risk. Stick with sober, conservative investments until you develop the confidence or desire to take on more risk.

21 – 35: You are an active investor who's willing to take calculated, prudent risks to achieve greater financial gain. Your investment universe is more diverse.

36 and over: You're a venturesome, assertive investor. The choices that are available to you promise dynamic opportunities. Remember, though, the search for more return carries an extra measure of risk.

Source: **Donoghue'$ MONEYLETTER.**

The Importance of Knowing Investment Returns

Once you get a portfolio established, it is important to continue to monitor it. Most people neglect their money once it is invested perhaps visiting their results once a year or so. We believe that it is important to stay closely attuned to portfolio holdings and the allocation and therefore, maintain a rigid schedule of portfolio reviews of the account we manage. We provide our clients with time adjusted portfolio returns on their entire account(s) as well as the asset classes within their accounts. These reports help clients understand the real value of knowing what is possible within the constraints placed on each of their portfolios by their IPS (investment policy statement.

The Truth About "Bragging Rights

In the recent gold rush era for investing, just about everybody has a story to tell about his or her winners. Bragging rights are touted over the back fence and at social gatherings. It's not uncommon to hear someone state affirmatively that they've made 20% or more on their stock market investments. Of course, we do not often hear how long the investment period has been – a month, a quarter or last year. The truth is most investors do not have the slightest idea of what their long-term performance record has been. Their claims to fame often reverberate from just one holding rather than a composite look at all their equity investing. Poorly returning stocks or mutual funds are often ignored when claiming a winning position.

Statement Analysis

Many individuals eagerly open their brokerage statements each month just to focus on the net change in the portfolio. If the number is positive they feel great but if it is negative, they wonder why their investment advisor didn't do better failing to realize that market momentum is responsible for most of the returns in a diversified portfolio of equities such as mutual funds.

Some do a simple analytical exercise consisting of adding up all the pluses and subtracting the minuses for a period of time and then use that number to determine their return. They forget that the timing of dividends, interest and realized capital gains must be taking into consideration when seeking a true time weighted performance return. Generally, it takes either a sophisticated Excel spreadsheet or a dedicated portfolio accounting program to produce the "real result."

The Effect of Bonds on Total Portfolio Performance

Another problem arises when investors hold a balanced portfolio of bonds and equities and they do receive performance reports. These investors want to know why they haven't been making those huge returns they are hearing about. Again, myopic vision keeps them from seeing the true picture. Anytime someone holds ½ of their investment holdings in fixed income laddered bonds (or bond funds) and ½ in the equity markets, their total return will naturally be lower in periods of strong stock market performance and rising interest rates than the person who just holds (or reports on) his or her stock or mutual fund performances.

Why Have an Investment Policy Statement

Many portfolios develop over time like a badly stocked cupboard of food. We've shopped at the store and picked up what looked good at the time with absolutely no idea of how whether it will complement ingredients we already have on hand. Investors also put portfolios together, unfortunately, using that method. They end up with a lot of investments which looked good but which were added to their holdings without thinking of what the end result would look like. This is where the Investment Policy Statement "IPS" is beneficial. Every portfolio should have guidelines governing the commitment to an investment class. As an example, an IPS that calls for income and some growth might have 40% devoted to equities (either stocks or mutual funds) and 60% to fixed income (cash or equivalents, bonds, mortgage notes). An aggressive IPS policy might consist of allocating most of the portfolio to equities and only leaving enough fixed income to qualify as an emergency cushion. These investors will have drastically different performance results and it will be important for them to separate the returns on the fixed income from the returns on their equities so an understanding on the whole can be achieved.

Performance Reports Are The Answer

It is mandatory to evaluate parts of a portfolio separately. Cash is a drag on performance results - - for instance, how much has been held and for how long. What about other fixed income investments– certificates of deposit, individual bonds, or bond funds. For example, when interest rates are rising, bonds on paper are returning less than their yields. It isn't until interest rates top and start to decrease that bonds on paper look like profits are being made.

Investors will more readily understand the impact their IPS statement has on portfolio performance and volatility if asset class performances are calculated separately before calculating a total portfolio return. They may even discover their own "bragging rights" on a particular part of their portfolio. When equities are measured separately, it is easier to compare one's custom portfolio results against the market as a whole and then to consider reasons for disparities in return. These disparities may involve the equity diversification between value and growth stocks and the allocation within the portfolio to large, medium and small capitalization stocks.

The Value Added of a Financial Advisory Relationship

Making sure clients understand how their portfolio performs by asset class is just a small "value added" part of having an ongoing relationship with a financial advisor. A much more important part, and this should be underlined, is to help clients keep greed in check. Investment whiplash incurred by moving a portfolio from advisory firm to advisory firm in search of higher returns is not only costly but can subject an investor to more volatility than desired.

> **A good financial advisor will sit down with his or her client and explain these subtle issues in great detail so that client will always make his or her decisions based on a platform of knowledge affirmed by their advisor.**

Don't settle for less!

SECTION VI – INSURANCE BASICS

Insurance is the great protector of wealth. Yes, it does cushion some unpleasant facts of life--death, catastrophic losses, disability, and poor health--the circumstances you think will never happen to you. But these situations do occur, and the cost can be devastating.

Why is it then that people will risk their future wealth instead of protecting it with insurance that may cost only pennies day? Perhaps it is because the issues of one's own death, disability or major illness are hard to face. Insurance is always behind the scenes and does not provide flashy cocktail party conversation.

Life or Death Insurance

I always wondered why life insurance was called "life," when it is only activated upon death. Death is the most certain of all realities and every day we live, we are one day closer to dying. Some of us are lucky and die a peaceful death at an advanced age, while others die accidently or from poor health at too young an age. As Venita Van Caspel wrote in her book, Money Dynamics for the 80's, "The great mystery of life is the length of it! You need a plan if you live a normal lifetime and you need a plan if you die prematurely." Since we all know we'll die eventually, the mystery is how to plan for something when we don't know when it will happen.

Who Needs It? To start thinking about your needs, review these common questions asked by concerned individuals:

> "I'm single, do I need life insurance?"
> "Do you recommend that I buy a policy for my baby?"
> "We're both working and living up to our incomes. What to you think?"
> "Can we continue our company group insurance when we retire?"

Here are five "rules of thumb" to help you determine if you need life insurance:

1. If you have an income flow that beneficiaries require to maintain their lifestyle and future goals.

2. If excessive debts would be a burden to your heirs.

3. If you're contemplating retirement and want the flexibility of self-insuring the survivor pension rather than paying your employer to provide the survivor pension.

4. If you're so wealthy that Federal estate tax will be assessed.

5. If you want to be sure to leave an inheritance for your beneficiaries.

You may have a valid reason to think about covering those needs with life insurance.

Life Insurance Choices

There are many creative labels placed on life insurance, but under all the razzle dazzle, only three basic types emerge: Whole Life, Term and Universal Life.

You can shop and compare policies, but you will have to be an astute shopper. Of the total premium, find out how much is attributed to the mortality and expense costs and how much of the premium is transferred to the cash account. Ask for a internal adjusted rate of return on the cash account. This will disclose the rate of growth on the savings component after expenses and mortality costs. It will never be the same as the interest rate declared by the company. If you have chosen a variable product, the confusion can be even greater. In addition to the mortality and insurance expense costs, there are money management fees.

Life Insurance Needs Analysis

INCOME NEED		
Immediate Expenses		
Federal estate taxes	$____________	
State inheritance taxes	____________	
Probate costs	____________	
Burial fees	____________	
Uninsured medical costs	____________	
Repayment of selected debts	____________	
TOTAL IMMEDIATE EXPENSES		$____________
Future Expenses		
Family income needs[1] __________ divided by _______%	$____________	
Emergency fund	____________	
Child care expense	____________	
Education funding	____________	
TOTAL FUTURE EXPENSES		$____________
TOTAL IMMEDIATE & FUTURE NEEDS		$____________
CURRENT ASSETS		
Cash & savings	$____________	
Equity in real estate excluding home	____________	
Securities (stocks/bonds)	____________	
IRA/Keogh plans	____________	
Employer savings plans	____________	
Lump sum pensions	____________	
Current life insurance	____________	
Other assets	____________	
TOTAL ASSETS		$____________

INSURANCE NEEDED

Total needs minus total assets

Total Immediate Needs $____________

Current Assets -____________

Additional life insurance needed $____________

[1] To estimate the lump sum of capital needed to produce the income shortfall, divide the annual income need by a reasonable interest rate such as 5-6%. This "capitalizes" the income.

Survivor Income Requirements (In the event of the death of either you or your partner)

	Self	Co-Client
1. How much income(1) would your family need?	$	$
2. How would this amount change when children left home?	$	$
3. What specific debts would you want to be paid?		

1 After tax and net of debt payments

Will Disability Strike?

Many working adults make a common mistake when it comes to insurance: they buy life insurance but ignore their need for disability insurance. Your ability to earn income is a very important asset and deserves protection. A disruption of income could be disastrous (unless you're already independently wealthy). All your plans for the immediate future would screech to a halt.

Estimating Disability Insurance Needs

LIVING EXPENSES

Housing (utilities, insurance, taxes, maintenance, rent/ mortgage payment) ____________

Food ____________

Clothing ____________

Transportation ____________

Entertainment/recreation ____________

Uninsured medical expenses ____________

Insurance premiums ____________

Debt payments ____________

Miscellaneous ____________

Annual Living Expenses $____________

INCOME DURING DISABILITY

Spousal after-tax income ____________

Dividends and interest ____________

Rents, annuities, pensions ____________

Social Security disability pay ____________

Annual Income $____________

NET ANNUAL DISABILITY INCOME NEEDS $____________
(Excess expenses over income)

Medical Insurance

High deductibles along with high co-insurance limits will keep your costs down. Protecting your family against catastrophic medical expenses is a must. Remember to insure for surgery but pay for the runny noses. Read your policy carefully to see what is covered and what is not--you don't want any surprises to greet you on your hospital bed. With today's skyrocketing costs of hospitalization, physicians' treatments and medicine, this risk is not to be left uncovered. If you are post age 65, then you must have a Medigap policy to supplement your Medicare insurance coverages.

Long Term Care Insurance

Will you spend your final years being cared for by professional "caregivers"? Acording to statistics, about 40% of all persons over age 65 will require some form of care during their lifetime. Of persons over age 85, roughly 25% are in nursing homes. This could be a problem as more and more people will reach these ages and beyond.

You may think you'll never end up in a home because you're healthy. That's what 50% of the nursing home population also once said--the 50% who have some form of dementia. Senility, Alzheimer's, or whatever you wish to call it is one of the leading causes of incapacity as the population ages.

Will Medicare take care of your long-term care needs? No. In fact, Medicare will pay for very little and then it is just for skilled care. The first 20 days are paid up to an approved amount, and the next eighty days are fully paid except for a $74 daily deduction. Beyond 100 days, there is a zero payment. Worse yet, most admissions to nursing home facilities are at the "custodial level" for which Medicare pays nothing.

What makes long-term health care such a risk? Money, money, money. The average cost is about $170 per day. Knowing this, you might wonder why 80% of the people over age 65 have one or more Medicare supplement plans, but only 3% carry long term health care. Again, refer to the axiom: pay for the small items and insure the large risks. It makes good sense.

Long Term Care Policies

	Policy 1	Policy 2	Policy 3
Insurance Co.			
Policy Number			
Policy Coverage[3]			
Issue Date	/ /	/ /	/ /
Person Insured			
No. of Yrs. Covered			

3. (Circle one) Nursing home Nursing Home and Home Health Care Home Health Care

Umbrella Insurance Coverage

This is the last wealth protector. Dollars spent in this area are wisely invested to shelter your growing or established wealth from adversity. Liability coverage protects you against a litigious society over and above the maximum limits in your home, auto, boat, or motorcycle policies. Depending on your net worth, an excess liability policy of a million or more may be recommended. Umbrella liability policies are offered through property and casualty insurance agencies and they are very inexpensive. Don't neglect this one.

Other Insurances

Note that we did not cover property and casualty insurances (your auto and homeowners/renters policies). This is a specialized area best discussed with the provider of those policies. Certainly, replacement value on assets is of high interest as well opting for the maximum liability coverage available under each of these policies.

SECTION VI – ESTATE PLANNING BASICS

"True, you can't take it with you, but then that's not the place where it comes in handy."
Brendan Francis

Estate planning is an act of love. It is something that you do now to make life easier for your loved ones after you're gone. Planning your estate involves more than just drafting a will. It encompasses reviewing your assets, how they are titled, methods of current management, and ultimate destination after your demise. Poor estate planning results in unnecessary taxes--both income and estate. Good estate planning, then, is usually only accomplished after a concerted effort to study the various methods of transferring assets to your heirs.

Your first goal should be to transfer the estate to your beneficiaries as easily and cost effectively as possible. The emotional trauma of dealing with the death of a dear friend or close family member can cause even the most organized survivor to fall apart. Whatever steps you can take to detail exactly what you want done with your assets will help ease the trauma for those you leave behind.

It will help make sense of this area if a thorough review of the following questions and statements is made. Certainly from a financial planner's point of view, it is mandatory to have all estate information surfaced prior to any discussions about how to plan your estate. Even if you feel your estate plans are current and appropriate, it will be helpful to us to review your planning efforts to date.

General Estate Questions	Self Yes / No	Date	Co-Client Yes / No	Date
Do you have a Will?				
Durable Power of Attorney				
Health Care Power of Attorney				
Community Property Agreement (if married)				
Living Will?				
Bequest list attached to Will?				
Do you have nursing home insurance?				
Have you or are you expecting to receive any inheritances?				
Is potential estate taxation a concern to you?				
Do you own a remainder interest in any property?				
Have you set up any trusts – in your will or currently?				
Are there any gifts you made subject to filing a gift tax return?				
Do you wish to leave part of your estate to charity?				

Beneficiary Designations, Account Type (circle one), Account # and Ownership	**Primary**	**Primary**	**Contin-gent**	**Contin-gent**
Beneficiaries: IRA/Qualified Account/Annuity/Life Insurance # ____________________________ Owner________________________				
Beneficiaries: IRA/Qualified Account/Annuity/Life Insurance # ____________________________ Owner________________________				
Beneficiaries: IRA/Qualified Account/Annuity/Life Insurance # _____________________________ Owner_________________________				
Beneficiaries: IRA/Qualified Account/Annuity/Life Insurance # ______________________________ Owner_________________________				
Beneficiaries: IRA/Qualified Account/Annuity/Life Insurance # ______________________________ Owner_________________________				
Beneficiaries: IRA/Qualified Account/Annuity/Life Insurance # ______________________________ Owner_________________________				

Please attach a separate list if necessary

If you have a will, do any of the following statements pertain to you? Please make your comments if pertinent.

Comments

1. Review of will by an attorney has not occurred in past 5 years. ______________________
2. Execution requirements have not been satisfied ______________________
3. Will was drafted prior to ERTA (1981) and contains a limited marital deduction clause ______________________
4. Change of one or more beneficiaries named in will is desired ______________________
5. Change in the amount or percentages bequested to one or more beneficiaries is desired ______________________
6. Change in the type of property bequested to one or more beneficiaries is desired ______________________
7. Addition of/deletion of beneficiaries is desired ______________________
8. Change in the amount of the marital deduction or in the amount of life income to the surviving spouse is desired. ______________________
9. A change in the residuary clause is desired. ______________________
10. Cancellation of debts by a will provision is desired. ______________________
11. A change in marital status of testator or a member of testator's family has occurred since the last review. ______________________
12. A change in the health of testator or a member of testator's family has occurred since the last review. ______________________
13. Birth or adoption of children/grandchildren has occurred since the last review. ______________________
14. There has been a change in the value of the testator's will since the last review. ______________________
15. There are one or more assets that have appreciated greatly since the last review. ______________________
16. The estate faces a potential liquidity problem. ______________________
17. There has been an acquisition/change in ownership of life ______________________

insurance, qualified pension plans, or other retirement benefits since the last review. ______

18. There has been a significant change in a business situation since the last review. ______

19. There have been business liquidity or continuity problems since the last review. ______

20. A change of a guardian, executor, or trustee designation is desired. ______

21. An addition of a successor guardian, executor, or trustee is desired ______

22. There has been a change in the status of a fiduciary since the last review (divorce, deterioration of health, disability, relocation). ______

23. There has been a change in the form of property ownership or a change on one or more deeds of ownership since the last review. ______

24. There has been a change in the state of residency since the last review. ______

25. Additional property has been acquired in a state other than the state of residency since the last review. ______

26. There have been significant tax law changes since the last review. ______

27. The will needs to be reviewed for other reasons. ______

If You Don't Have a Will:

If there are minor children, who would you want as their guardian if both parents should be deceased?

______

Should that person also be the guardian of your children's assets?

______

Are there any special needs that might require an unequal distribution of estate assets to your children?

______

Would you want your children to receive their inheritance in a lump sum at age 18? Yes No
If not, when? ______

Other important information you need to surface such as expected inheritances or extraordinary pending expenses:

____

____

____

Your Will Shall be Done

Everyone needs a will. And, yes, you probably do have enough assets to make one worthwhile. What kinds of assets can be controlled by your will? All assets that are individually owned, and your share of those titled as tenants in common or which are community property can be distributed via a will. Assets that are titled as joint tenants with rights of survivorship are not impacted by your will. Instead they are transferred outside of probate to the surviving joint owner. Life insurance, tax deferred annuities, and retirement benefits are passed by contract direct to the named beneficiary. In some cases, you may want the beneficiary to be your "last will and testament."

In the will, you can decide who will inherit your estate, how much each individual will receive, how the estate will be administered, and when it is to be distributed. You name a personal representative and an alternate (also known as executor/executrix); someone you know and trust. I often jokingly suggest appointing someone you dislike as the personal representative because it is not an enviable job.

The will is the place to name a guardian for your minor child(ren). You can even go so far as to leave specific instructions for their care. You may include in your will details regarding any trusts you wish established for your children or spouse. If you establish a trust for asset management, estate tax reduction, or for the benefit of minor children, you must name a trustee. The trustee's position is to manage the trust assets and comply with tax and reporting regulations.

You may want to leave specific assets or belongings to particular people or charities. Document those desires in your will. But you don't want a laundry list of everything you own written in the will ("My toothpick holder collection to my niece, Pam"; "My tool and die set to my son, Tom"). Attorneys may recommend, depending on state law, that you make a list of personal property and attach it to the will. If the list is referenced in the will, you can change it as many times as you wish without incurring the legal fees necessary to add the amendment, known as a codicil.

You can also attached a "Personal Instruction" letter to your will (be sure and reference it in the will). For a sample of what it might look like, refer to the example at the end of this chapter.

Here are eight things you should consider when drafting your will:

1. Get your spouse involved and, of course, seek professional assistance. If you develop your wills together, you'll be doubly protected. Family objectives will be met regardless of whether you or your spouse dies first.

2. As a general rule, use percentages rather than fixed dollar amounts in designating inheritances. If you leave $10,000 to each of your three brothers and the rest to your children, guess who doesn't receive anything if your asset base should drop to

   $30,000 before your death. It may be appropriate, however, to leave a dollar sum when you want to recognize an heir with a gift but do not want to leave him or her more than a stated figure.

3. Don't be so controlling as to insist that certain assets be preserved in the hands of your heirs as you held them. Your loved ones will suffer if economic conditions later demand that they liquidate or redistribute these investments.

4. If you have chosen a beneficiary as a witness to the will and that individual is asked to validate the will, dire consequences could result, such as the loss of his/her inheritance.

5. Always amend a will by adding a codicil. You can't make handwritten changes on your original will and expect it to hold up in court.

6. You and your beneficiary may wish to incorporate a simultaneous death clause in each of your wills. The Uniform Simultaneous Death Act provides that in the case of a common disaster, double administration of the estates will be avoided. But two probates will still occur.

7. Handwritten wills (holographs) are not legal in some states. Check your state laws.

8. Designate the guardian for your minor children. If you don't, the court will. Nominate an alternate guardian, too, if possible.

9. Fundamental estate documents such as the will and the following durable power of attorney are often loss leaders for attorneys. As such, they may be the most cost-effective services provided by the legal profession.

A Durable Power of Attorney

Many people, mystified by the durable power of attorney, don't have one. The durable power of attorney is merely a means by which you transfer to someone else the ability to make legally binding decisions. Should your mental or physical capacities drop below stated levels, you can be declared incompetent and have your financial and legal matters handled by your named representative.

This transfer of the right to make legal decisions regarding financial affairs can be so broad as to encompass everything you own, or so narrow as to give someone the right to control only a specific asset.

You can see that this powerful document belongs only in the hands of someone you trust implicitly. Your "attorney-in-fact" must be aware of the document in order to exhibit it to the appropriate authorities when transacting business on your behalf.

Community Property Agreement

This document only affects those individuals living in one of eight community property states; nine if you count Wisconsin, a quasi-community property state. State laws may differ, but since I practice financial planning in the state of Washington, I can comment only on the laws that apply in that state. If you live in a community property state other than Washington, check with an attorney in your state to see if the following discussion is applicable to you.

The community property agreement, when signed and recorded at the county courthouse, can be used by married individuals instead of a will for distribution of part or all of their assets. The reason for its popularity is that the most commonly used form, the community property agreement with survivorship, completely avoids the probate process. However, it is not always wise to avoid probate because it is the process that limits creditors from filing claims against the estate after 120 days. If assets are transferred outside of probate, creditors can file their claims anytime within the statute of limitations.

If you still wish to use a community property agreement, but don't want to avoid the probate process for a variety of reasons (such as limiting creditors, making use of a testamentary trust, distributing your half of the community property to several beneficiaries), you can. It is a community property agreement without survivorship. The document confirms that one-half of all the marital assets belong to each party unless specifically noted by exception. By directive, it points to the will for asset distribution directions.

This brings up an important issue relating to the community property agreement. When signed, both husband and wife have agreed that all current assets and future inheritances shall belong to each of them equally, unless noted by exception. Don't sign this agreement in haste. Consider the strength of your marriage.

Living Trusts

Here is another vehicle which will avoid probate. It can be used by anyone who wishes to establish a revocable trust to manage assets during one's lifetime. Revocable means you can change your mind and "untrust" your assets at any time. A living trust does not reduce taxes--estate or income. The sole purpose is to organize and manage your assets in such a manner that they can be passed to your beneficiaries outside of probate. Your living trust will protect your financial affairs should you become incapacitated. Should that occur, you would no longer be the trustee. Instead, a successor trustee, named by you in the trust documents, would take over the management of the assets.

The issue of whether or not a living trust makes sense is hotly debated in some states such as Washington, where non-intervention wills are the norm and probate fees are based on the hourly rates of, usually, a paralegal. Most attorneys, with whom I have discussed this issue, claim that probate is not that onerous or costly. But if you live in a state where probate fees are based on a percent of the estate, a living trust is a sensible way to avoid the high cost of probate. For individuals owning property in more than one state, a living trust is a great solution to multiple probate.

Privacy is the last benefit of a living trust. Probated estates are a matter of record. Anyone can go to the county courthouse and review those records. A living trust, which passes outside of probate, keeps your affairs out of the public limelight. Whether or not that is important will depend on your position in the community and level of assets accumulated.

The downside of having a living trust is the great amount of paperwork to be completed. All the assets you own must be retitled in the name of the trust: autos, property, investments, retirement plans, etc. Usually the attorney who drafts the living trust will also take care of retitling your assets--for an extra fee, of course. Or to limit costs, you can do it. Structuring a living trust and activating it is rarely a problem. What can be difficult is the continuing maintenance of it--remembering to title your next car in the name of the trust, to sign all sales papers as trustee, to provide proof of the trust whenever you change assets, and so on. Regardless of the housekeeping duties associated with them, living trusts are very popular with both the wealthy and the not-so-wealthy, alike.

PROBATE BENEFITS

There are some very good reasons to have your estate probated. It limits creditors, e.g., malpractice claims for professionals, unpaid lenders, to making a claim against the estate after 120 days have passed. For non-probated estates, creditors have until the statue of limitations--a six year period--to file a claim. Whether or not you want to deal with probate will depend on the state in which you reside. If you live in a state that allows charging a percent fee against the estate for probate, you will want to consider avoiding probate. If you live in a state where non-intervention wills are the norm, probate costs may not even be a factor in your decision.

Living Will

This document provides a record of your wishes regarding life support systems. With more and more people living longer and science keeping bodies ticking mechanically, the living will is becoming a popular option. It is legally valid in most states and in some is recognized officially as a Directive to Physicians.

Property Ownership Traps

How your assets are titled is an important estate planning issue. Incorrect titling of assets can create complex problems after your death.

For example, if John and Clara Elden's assets were held as joint tenants with rights of survivorship (JTWROS) with their daughter, upon their deaths, they would have inadvertently disinherited their two boys. The daughter would have instant ownership of the assets. John and Clara's will and the plans contained within it would be totally ignored. This simple illustration points out the need to seriously consider the end result of each property titling decision. Coordination with your will is a must.

And if they were millionaires who had drafted an exotic estate plan including a unified credit trust to preserve their estate tax exemption from federal estate taxation, owning property as JTWROS would bypass the will and sabotage their estate tax avoidance plans.

If you are lucky enough to live in a community property state, another form of property titling exists between husband and wife: community property. This is the recommended method of holding titled property in all cases where a potential for growth exists or has already occurred. This type of titling allows all assets so held to assume a step-up in basis on both halves--the decedent's and the survivor's--for income tax purposes.

Property held as joint tenancy only takes a step-up on one-half of the value--the part owned by the decedent--at the date of death. Note that some states may have adopted a state law which makes the presumption that JTWROS property is community property for purposes of the step-up in basis for both halves.

It is very important to ensure you have your property titled correctly, not just for estate distribution reasons but also for tax planning purposes. If you give appreciated assets to your heirs prior to your death, the cost basis of the asset follows the gift. That $80 stock which you purchased for $20 will still have the same amount of gain regardless of whether you own it or you gave it away. Good tax planners will evaluate assets and determine which ones to make a gift of and which ones to retain in the estate in order to take advantage of legal tax avoidance. Your heirs then can liquidate your assets at the stepped-up basis valuation.

What does the term, "stepped-up basis" mean? Here is an illustration:

John and Clara own a piece of property which cost them $60,000 in 1975 and is now worth $200,000. According to their will, their son, James, will inherit the property. If James were to sell the property immediately, he would pay no federal income tax. This is because the original cost basis would go with the Eldens to their grave and Michael would be assigned a new cost basis equal to the market value of the property at the time of John and Clara's deaths.

Property titling can be confusing but this is a very important area to understand.

Survivor's Checklist

1. Make necessary funeral arrangements.

2. Notify relatives and friends.

3. Collect copies of last will, certified copies of death certificates (minimum of six from funeral director), insurance policies, latest financial statement, location and account numbers for bank statements, birth certificate, marriage license, social security number, veterans administration number and record, list of employer fringe benefits and last three tax returns.

4. Contact an attorney to notify witnesses to will and schedule a meeting to handle estate settlement.

5. Advise executor of estate, if known.

6. Contact banks to verify status of checking, savings and safety deposit box.

7. Notify casualty insurance broker to modify insurance as necessary.

8. Locate securities and contact security broker to arrange retitling of securities.

9. Have executor adjust ownership of any insurance policies on the lives of others owned by the deceased.

10. Have executor re-title real estate that was owned by the deceased.

Insurance Policies: Contact insurance company, agent, or advisor and obtain death claim form. Complete form and return it along with a certified copy of death certificate and policy.

Social Security: Apply to nearest Social Security office in person and bring 1) certified copy of death certificate, 2) social security number of deceased, 3) proof of relationship (marriage license or birth certificate).

Fringe Benefits: Contact the employer of the deceased immediately and request a listing of death benefits. Supply necessary death certificates and any other documentation required.

Veterans' Benefits: Inquire in person as to eligibility and deliver required documentation including 1) birth certificate, 2) social security number, 3) death certificate, 4) V.A. records.

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Filing of Tax Returns: Make a decision on who is to file appropriate tax returns: 1) U.S. Estate Tax Return Form 706, 2) residence state Inheritance Tax Report, 3) inheritance or estate tax returns for other states where applicable (property holdings), 4) fiduciary income tax return, 5) individual income tax return, 6) estate accounting.

These returns should be reviewed by the probate attorney but they can be prepared by your attorney, CPA or your bank trust department. Our recommendation is that you have one firm or individual prepare all the returns and that you have a clear understanding of fees before the work is begun.

Source for this form: Text Library System, Middletown, Ohio.

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Personal Instructions to Family

This letter is being written as a supplement to my estate plan and arrangements. I have decided to write my family this letter to explain my objectives with the hope that in several areas my ideas or wishes will be helpful in handling my estate and investment matters and in making important decisions. However a note of caution should be expressed that hindsight is preferable to foresight. Therefore, the thoughts expressed in this letter should not be considered rigid or binding and they should always be tempered by a careful consideration of the facts and circumstances existing when a decision has to be made.

1. Instructions concerning my funeral, last rites, burial services, cemetery, etc.:

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2. Provisions relating to my medical care and nursing home:

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____

3. My wishes regarding life support systems (refer family to your Living Will or Directive to Physicians statement):

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____

4. My wishes regarding organ donor transplantations:

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____

5. Feelings about who I would like my family to seek medical, legal and financial counsel:

____
____
____

6. My recommendations regarding investment philosophy:

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7. Goals I consider very important for my family:

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____

8. Special Investments or comments for my spouse:

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____
____

9. Other considerations:

____
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____

Signature_____________________ Date_____________

(This letter may be sealed and the envelope marked "To be opened in the event of my serious illness or death."

Source: Text Library System, Middleton, Ohio

CONCLUSION

We hope that this organizational workbook has been useful for you. As was stated earlier, it is meant to be a work in progress document – one that you can revisit and revise as your find your finances becoming easier and easier to organize and manage. You can also use it as the basis to understand your situation prior to working with a professional financial advisor.

Kathleen Cotton
Certified Financial Planner®

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