

# FINANCIAL BRIEFS

Fulton Financial Planning, Inc.

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*Helping You Chart a Brighter Financial Future*



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This newsletter strives to provide factual and up-to-date information on the topics discussed, but it should not be regarded as a complete discussion of these issues. The reader is advised to engage the services of a competent professional before taking action on any subject matter discussed.

## Money Savvy Tips for All Year Long

Another new year, another clean slate. Everyone is back at the gym, on the treadmills and starting new diets. The New Year is a great time to resolve to get in shape. It's also a great time to jump-start your personal fiscal fitness program.

Whatever the time of year, resolve now to achieve the following:

Raise your money quotient. Learn all you can about personal finance and money management. While there is perhaps an overabundance of information on the World Wide Web, there are many great resources available if you know where to look. Whether you are surfing the Web for information, reading financial publications,

hearing financial commentary via television and radio programs or scouring a book for ideas, it's essential that you filter out the unreliable sources and stick with those you trust.

Crystallize your vision. The first step in making smart financial decisions is to get crystal clear about what you really want and why. Set long- and short-term goals. Consider the pleasure and fulfillment that accomplishing them will bring you. Create visual reminders to help you get and stay in touch with your vision for the future. Whether it's a cruise to a sunny destina-



tion next spring or the retirement of your dreams in 20 years, keep the focus on your future.

Set realistic goals. Ask yourself where you want to be in three years, five years and twenty years. What will it take, investment- and saving-wise, to achieve your goals? Then focus and prioritize around those

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## Need a Second Opinion?

As you weigh making any number of daily decisions, do you sometimes turn to family members or others for their thoughts?

Gathering different perspectives — or having a sounding board — can be a valuable resource as we ultimately reach that decision. That's especially important when the decision involves a large

amount of money or has far-reaching effects.

Consumers are increasingly turning to financial professionals who can offer objective, unbiased advice for help with second opinions that involve financial issues. Such projects typically focus on the specifics of only a single issue, such as whether a proposed life insurance

or annuity policy is appropriate, how specific mortgage terms may impact the person's future financial horizon or whether a proposed early retirement package offers adequate long-term income potential.

As a financial planning generalist, I'm pleased to offer second opinions — as well as more in-depth plan-

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# Getting Your Estate In Order

Estate planning involves much more than determining how your financial affairs will be handled and your assets distributed after you die.

It also requires planning for what will happen should you become disabled or even wish to leave a charitable legacy.

For this article, let's focus on death or disability.

Having a will is important, but that's not enough to be prepared properly. You also need several related documents that primarily address incapacity and other issues short of death.

A general power of attorney (or durable power of attorney for finances) appoints someone else to make decisions concerning your financial affairs for you. This document might be more important than even your will, since many individuals have sizeable assets in an IRA or other qualified retirement plan that pass to beneficiaries outside of a will.

The powers granted under a power of attorney may go into effect immediately upon signing the document, or they might be delayed until an event occurs that triggers the power or until you are unable to manage your own financial affairs. This delayed activation is known as a springing power.

A power of attorney can include specific provisions permitting financial activities that might otherwise cease if you become incapacitated, such as selling an individual investment holding or continuing a gifting program. Having this document eliminates the need for your family to petition the court to appoint a financial guardian or conservator.

Several additional documents deal with medical issues. The durable power of attorney for healthcare

names someone else to make medical decisions on your behalf if you are unable to do so.

The Health Insurance Portability and Accountability Act of 1996 makes privacy issues an additional concern. As you may recall, one part of this legislation involves health care privacy laws that prevent health care providers from discussing an individual's health care information without express authorization, even including whether the person is incapacitated.

Having a separate HIPAA authorization form can help avoid those potential problems, by specifically granting the health care providers permission to discuss your health status with your designated agent.

The third important document in this area is the medical directive to physicians (sometimes known as a living will). This tells medical personnel what, if any, measures you

wish to have taken on your behalf and under what circumstances. It's not sufficient that you merely address your resuscitation preferences. As the recent Terri Schiavo case highlighted, the document should also state your wishes for prolonging life if dependent upon receiving food or water via an artificial tube.

Health care directives and HIPAA forms should be stored at home, not in a bank safe deposit box where they are inaccessible after hours or on a week-end.

Planning for end of life issues is never easy. But you can help ease your family's heartache by doing basic estate planning now.

Even if you've already completed basic estate planning, it's a good practice to have your documents reviewed every few years to make sure they address any new legal issues that may have arisen and still reflect your wishes. •

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## Long Term Care Insurance

Should you purchase Long Term Care insurance?

This may be the most difficult question in all financial planning.

LTC is insurance that helps cover the cost of custodial care, which currently costs about \$60,000 annually for a private room in a nursing home in the North Texas area.

Some LTC policies provide additional coverage, such as for home health care, assisted living or adult day care. But all policies are not standard in what they offer.

A study by the New England Journal of Medicine estimates that more than 40% of people who live to age 65 will spend some time in a nursing home. Even though the chance of needing

extended custodial care may be relatively small, if it happens it could have a huge financial impact.

As equally important as accumulating wealth in order to achieve financial goals is protecting the assets that you have. LTC insurance is a good way to guard against one of the greatest financial risks you may face — but it's not for everyone.

There are many factors to consider, including whether or not you have the resources to self-insure.

So consider whether LTC insurance is necessary to protect your financial plan or simply worth the cost for the peace of mind that it may provide. •

# Keys To a Successful Portfolio

Ever ask yourself why your portfolio always seems to underperform? Then you're not alone. Most all of us wish our investments had achieved better results.

And with 2005's numbers, that may be especially the case. The Dow Jones Industrial Average lost .6%, the broader Standard & Poors 500 gained 3% and the NASDAQ edged up 1.4% for the year.

Keep in mind those are returns of popular market averages. But certain market segments performed very well last year. No doubt you're very pleased if you had exposure to the energy, natural resources, gold-oriented and international/global equity sectors.

Before you rush to sell your current holdings and re-invest the proceeds in last year's best performing areas in hopes of improving performance, keep a few key principles in mind.

High-flying investments often achieve their lofty gains by taking bigger risks. Make sure you can sleep well at night before you

take on that greater risk. And don't expose a significant portion of your portfolio to the more volatile investments. Remember the adage: a little spice is nice, but moderation is the key to success.

Allocate your assets among bonds, stocks, cash and other investments in proportions that reflect the risk level you're comfortable with and will help you achieve your goals. In some cases that may mean portfolios must not be more conservative 'just because' someone is older or more aggressive because they may need more income. 'All purpose model portfolio' asset allocations are rarely appropriate for everyone.

*Spice is nice . . .  
moderation  
is key*

However lifestyle or lifecycle funds may be an exception. These free you from spending the time in initially constructing your portfolio, re-balancing on an interim basis or making more extensive adjustments in the future as you near your goal, such as retirement.

Have realistic performance expectations. The years of exceptional annual returns for stocks, on average, are probably now only a memory. Annual average returns below the long-term average of 10% seem more likely in the foreseeable future. And the average returns for balanced portfolios are likely to be single-digit.

Enhance your net returns by holding down (a) excessive commissions when buying or selling individual securities and (b) excessive expenses when investing in mutual funds.

When investing in taxable accounts, be mindful of the tax consequences of owning mutual funds that make large taxable distributions of realized short- and long-term capital gains. Recent research suggests that funds with low turnover and long-term capital gains still belong in taxable accounts and that funds which have large amounts of short-term gain distributions should be placed in retirement accounts, such as 401(k)s and IRAs.

When investing for income, resist the temptation of chasing high yields. Higher yields are generally associated with higher risk. What appears to be yield may actually be a return of capital with some investments.

Accept that there is no shortcut to mutual fund selection. Whether you research yourself or rely upon a financial adviser, fund performance

## Selected Market Data—2005

Dow Jones Industrial Avg	(.6%)
Standard & Poors 500	3%
NASDAQ Composite	1.4%
Russell 2000	3.3%
Lehman Bros Aggregate Bond	2.4%
MSCI EAFE Index	13.5%

— and literature — must be analyzed carefully to determine the appropriateness for your needs. Data which indicates superior past performance — which must be reported as part of SEC regulations and updated periodically — don't assure you of superior future performance. Neither do ratings, such as a 5-star rating for risk-adjusted performance calculated by Morningstar. They may provide you with an additional dimension of past performance, but, as Morningstar has long reminded, they don't have predictive value. Such data must constitute the beginning, not the end, of the selection process.

Don't be too impressed by high absolute returns. Compare past performance data for an equity fund with performance data for the same periods against the S&P (for large companies), the broader Russell (for smaller companies) or some other appropriate index average. Also compare against their peer group. By focusing on relative returns, such comparisons let you know whether the fund has performed as well as could be expected, better or worse, given the holdings it owns.

Always remember that stocks and bonds — and the funds that own them — are long-term investments, requiring patience and the ability to ride out market volatility. Stocks and stock funds are unlikely to be, as magazine covers will have you believe, "the 10 (whatever) you must own in 2006." •

## Money Savvy Tips

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answers. Work with your spouse or life partner to identify family goals and objectives.

Get out the map. How will you get to where you want to be financially? Your decisions will impact your work and lifestyle choices. Identify the route required and develop a life and financial travel plan. Good plans shape good decisions. That's why good planning helps to make elusive dreams come true.

Find the help you need. Perhaps you may need a financial coach and ally. Do your homework to find a good one. Look for an adviser who maintains a thorough knowledge of the financial issues important to you. Do you need an investment expert to help you make better mutual fund and stock selections? A portfolio manager to whom you can delegate ongoing investment-related decisions for an annual fee? Or a financial planning generalist who can provide high level advice and help you make money-savvy decisions in a variety of areas such as debt reduction, short-term saving strategies, college funding options, mortgage, home and automobile

purchase decisions, retirement planning and how to leave a legacy? Look for someone who has experience working with people in your situation and who truly wants to work with you.

Look at the package of services. One way financial advisers differentiate themselves is by how they package and deliver their services. Some wrap everything up in an all-inclusive fee. Others unbundle their services so that you can pick the ones you need and want on an a la carte basis. The cost differences can be significant. Be sure you are not paying for more than you need.

Keep the fundamentals in mind. When investing, remember your risk tolerance and time horizon; create a diversified portfolio and maintain realistic expectations. Be clear about what you need your money to do and by when. Achieving your long-term goals is important, but so is sleeping well at night; don't take on more risk than you can handle. Conversely, it might not be wise to be too risk-averse if you are still several years away from retirement. During the

bear market of 2000-2003, many investors were utterly blind to risk. At the market bottom, fear was the driver causing many missed opportunities. Both fear and greed can lead to mistakes. Balance is key.

Don't let the tail wag the dog. Taxes are another consideration when making decisions, but not the only one. The name of the game is not simply to minimize taxes, but to maximize your personal situation with the least amount of risk. Your financial adviser or tax professional can help make sure you are utilizing all tax-advantaged investment options and claiming all applicable tax deductions and credits.

Follow through is the key to success. Put your plan in writing and commit to doing what it takes to make it happen. This might involve doing things that are not convenient — or that require a lot of self-discipline. Your goals for the year might include building up your emergency fund, reducing debt and putting your estate in order. Whatever the specifics, a financial adviser can help you create a prudent plan and keep you on track. If you are inclined to do some of the work yourself, you might consider having a planning professional look over your ideas to ensure you are making the best decisions possible. A good planner will often see pitfalls you can avoid or opportunities you might pursue. Re-commit to your financial fitness program today. Plan now for a brighter financial future! •

### By the Number\$ . . .

#### Key 2006 Data

Retirement Contribution Limits:	
IRA	\$4000
Additional \$1000 catch up if over age 50	
401(k), 403(b) and 457(b)	\$15,000
Additional \$5000 for participants over age 50	
SIMPLE Plans	\$10,000
Additional \$2500 for participants over age 50	
Estate Tax Exclusion	\$2,000,000
Social Security:	
Taxable Wage Base	\$94,200
Earnings Limitation:	
Below FRA	\$12,480
Persons reaching FRA	\$33,240

Tax Planning:	
Standard Deduction -	
Married Filing Jointly	\$10,300
Single	\$5150
Personal Exemption	\$3300
Annual Gift Tax Exclusion	\$12,000
Standard Mileage Rates:	
Business Use	44.5¢/mile
Charitable use	14¢/mile
Medical/moving use	18¢/mile

Source: Internal Revenue Service

### Second Opinion

(continued from p. 1)

ning projects — among my services.

In fact that project flexibility is one of the more frequently mentioned attributes that attract clients to fee-only financial planners such as Fulton Financial Planning. •