

FINANCIALink

Your Money Management Newsletter



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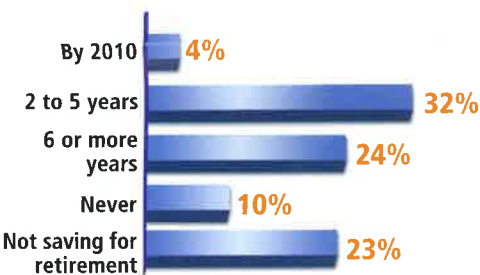
SnapSHOTS



RECOVERY FORTHCOMING

Despite experiencing dramatic losses to their retirement savings, the largest group of people in one survey expected to recover their losses within five years.

When do you expect to recover losses in your retirement savings in the past year?



Source: USAToday.com, 2009

Up FRONT 33%

of high-net-worth households own businesses.

Source: *Journal of Financial Planning*, July 2009

Quick HITS

U.S. tort system costs have increased more than eight-fold since 1950, after adjusting for inflation, and have far exceeded U.S. population growth.¹

Forty-five percent of Americans favor canceling the remaining government spending authorized under the \$787 billion stimulus package.²

Almost one-third of investors say that none of their retirement savings is going into stocks, according to a recent online poll.³

More than half (55%) of Fortune 100 companies offered *only* defined contribution plans to their employees in 2009, up from 10% in 1998.⁴

The average American feels that, ideally, he or she should be taxed at a maximum rate of 15.6%, well below the nation's average tax burden of 28.2%.⁵

Sources:

- 1) *2008 Update on U.S. Tort Cost Trends*, Towers Perrin
- 2) *InvestmentNews*, June 15, 2009
- 3) *Money*, July 2009
- 4) *Journal of Financial Planning*, July 2009
- 5) Tax Foundation, 2009

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Practical insights for your **FINANCIAL GOALS**

An Extra Layer of **PROTECTION**

The per capita cost of the U.S. tort system has reached \$835, according to the most recent data (from 2007). After adjusting for inflation, this marks a more than eight-fold increase in tort costs since 1950 and has far exceeded U.S. population growth.¹ Although \$835 per person may not sound like much, when you consider that most Americans will never be defendants in a liability lawsuit, this leaves an unlucky few facing multimillion-dollar decisions.

Regardless of how carefully you live your life, there is simply no way to eliminate the possibility that someone could file a lawsuit against you. And if a jury should ever find you liable for damages to another party, it's not likely to consider the liability limits of your homeowners and auto insurance policies when deciding how much to award the plaintiff.

GIMME SHELTER

Before you can qualify for umbrella liability insurance, the insurer typically requires you to purchase the maximum liability coverage available on your homeowners and auto policies. In the event that you are hit with a judgment that exceeds your primary coverage, the umbrella policy will pay the difference, up to the policy limits. For example, say a hypothetical family's homeowners insurance covers them for \$500,000 and they have a \$1 million umbrella insurance policy. If they were successfully sued for \$900,000, their homeowners policy would cover the first \$500,000 and the umbrella policy would cover the remaining \$400,000.

Umbrella coverage can be fairly inexpensive, with premiums as low as a few hundred dollars a year for \$1 million in coverage.

WHAT IS COVERED

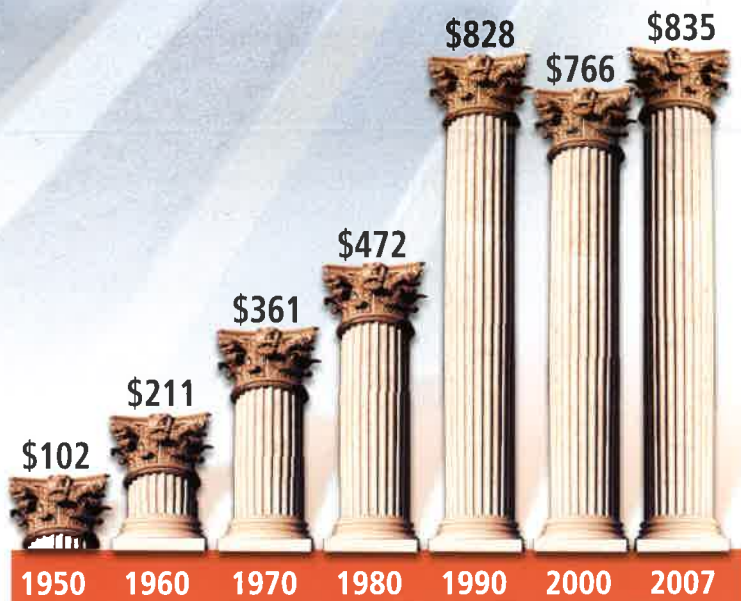
An umbrella policy can also cover medical costs and lost wages you may be forced to pay, as well as your own legal fees and lost wages that you sustained during the legal proceedings.

In addition to the typical coverage afforded by homeowners and auto insurance policies, umbrella liability insurance can cover such things as libel, slander, invasion of privacy, and defamation of character. A complete statement of coverage — including exclusions, exceptions, and limitations — can be found in the policy.

The thumbs-down from a jury in a personal injury lawsuit could destroy what you've built over the course of your lifetime. Umbrella liability insurance can help protect your family from the financial ruin that a civil liability trial can bring.

The Rising Cost of Personal Liability

Inflation-adjusted U.S. tort cost per capita



Source: 2008 Update on U.S. Tort Cost Trends, Towers Perrin.
Restated in year 2007 dollars, based on the Consumer Price Index.

1) 2008 Update on U.S. Tort Cost Trends, Towers Perrin

Getting the **RIGHT MIX**

Almost one-third of investors say that none of their retirement savings is going into stocks, according to a recent online poll.¹ Some of the respondents cited the current economic climate as a reason for the dearth of equities.

It can be difficult to avoid emotional reactions to changes in the market, but a carefully considered long-term asset allocation strategy may help your retirement portfolio better endure volatility. After all, research suggests that over 90% of a portfolio's performance is a direct result of how its assets are allocated.²

Asset allocation is the process of dividing your investment dollars among asset classes that often behave differently in different market cycles. An asset allocation strategy may help reduce your exposure to risk and possibly enhance your portfolio's performance over the long term.

CONSIDER THE FACTORS

The appropriate percentage of equities, debt instruments, and cash equivalents in your portfolio will depend on some key factors:

- **Financial goals.** Are you saving for retirement? Your children's education? A second home?
- **Time horizon.** When will you need the money: 10, 20, 30 years? How old are your children? When do you want to retire?
- **Risk tolerance.** How comfortable are you with exposure to risk? Do market fluctuations make you nervous? Are you young enough to recover from losses?

Stock Answers

An online poll recently asked investors how much of their retirement savings was going into stocks.



Source: *Money*, July 2009

These three variables make the appropriate allocation potentially different for everyone. A 55-year-old nearing retirement will have different needs than a 40-year-old with two children preparing for college.

Moreover, investments can be diversified within each asset class to further reduce a portfolio's exposure to risk. For example, the stock portion of a portfolio can be divided into small/large cap, value/growth, and other categories.

Asset allocation and diversification do not guarantee against investment loss; they are methods used to help manage investment risk. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

After developing an appropriate asset allocation strategy, it is important to periodically revisit and revise your strategy. Over time, outperforming assets may grow and skew your percentages. You may need to rebalance your portfolio in order to maintain your percentages. Also, you may need to make changes to your allocation as you near retirement or as your investing goals change. Be aware, however, that rebalancing may result in taxes owed.

Although current market conditions may warrant re-examining your asset allocation, be careful not to abandon a carefully considered strategy in favor of an emotional reaction.

1) *Money*, July 2009

2) Brinson, Singer, and Beebower, "Determinants of Portfolio Performance II: An Update," *Financial Analysts Journal*, May-June 1991



Lighten the **LOAD**

When Americans were asked what percentage of a person's income should go to pay taxes, the average response was 15.6%. Unfortunately, that's well below the nation's average tax burden of 28.2%.¹ As the year draws to a close, there are several ways you may be able to lower your tax bill next April.

- **Defer income:** Unless you think that you might be in a higher income tax bracket next year, you may want to defer income until after the first of the year, if possible.
- **Make your January 1 mortgage payment early:** If you make next year's first payment on or before December 31, you may be able to take an additional interest deduction this year.
- **Donate to charity:** Donate cash and/or used items (in good condition or better) and you may be able to deduct the value from your taxable income.
- **Drain your flexible spending account (FSA):** Although this tip won't necessarily save you money on taxes, it may save you money. If you have set aside funds in an FSA to cover medical expenses, you need to use it before the end of the year (or by your plan's deadline) or you risk losing the money altogether.

Before you take any specific action, be sure to consult with your tax professional.

1) The Tax Foundation, 2009



The Finer Points of Refinancing

It's been called America's favorite tax loophole. Most homeowners know that there's a good chance they can deduct the interest on their mortgages. However, what many may not know is that the IRS allows homeowners to deduct the points from their home loans.

Mortgage "points" are fees that borrowers can pay up front in order to lower their interest rates. One point is equal to 1% of the loan. The IRS allows homeowners to deduct any points over the course of the loan. Homeowners who refinance or sell can still deduct the remaining point balance that same year. However, if a homeowner refinances with the same lender, the IRS stipulates that the remaining point balance be added to the new loan and the new amount amortized over the course of the latest refinance.

Sources: MSN.com, 2009; HomeLoanBasics.com, 2007

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Are you taking your life expectancy into account when deciding how much to set aside for retirement? Call today to explore strategies that may help you avoid a retirement income shortfall.

Working toward a better financial future,