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FINANCIAL*ink*

Your Money Management Newsletter

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*Snap***SHOTS**

NO PAPER TRAIL

Do you receive at least some financial statements online? Nearly 50% of respondents in a 2009 poll said they do.

Source: *Consumer Reports Money Adviser,* January 2010

Up **FRONT**

83% of Americans said they are likely to learn more about financial topics in 2010. The top two subjects mentioned were setting financial goals and saving for retirement.

Source: *InvestmentNews,* December 21, 2009

Quick **HITS**

Since 1972, companies that have started or consistently increased dividend payouts have significantly outperformed the broader market.[1]

Money invested in equity mutual funds remained relatively flat in 2009, whereas inflows to bond funds set record highs.[2]

In a study of bank customers with similar savings goals, those who received text-message reminders to make savings deposits saved 6% more than those who didn't receive reminders.[3]

The projected average cost of one year in a nursing home in 2030 is $178,510.[4]

Forty-six percent of early boomers (born between 1948 and 1953) have no mortgage. Less than 2% of early boomers have mortgage amounts that exceed the value of their homes.[5]

Sources:
1) CNNMoney, November 9, 2009
2) The Motley Fool, January 12, 2010
3) *Kiplinger's Personal Finance,* February 2010
4) *Money,* January/February 2010
5) *Journal of Financial Planning,* January 2010

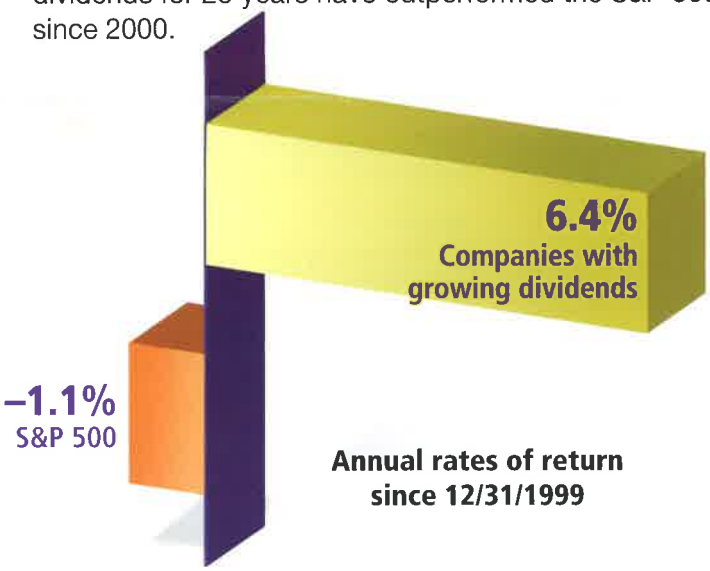
Practical insights for your **FINANCIAL GOALS**

When Investing **PAYS DIVIDENDS**

Typically, stocks that pay a portion of earnings to shareholders in the form of dividends are not considered to be superstars of the stock market. They typically do not offer the growth or price appreciation potential of small-cap companies, but tend to be more stable.

Payout and Performance

One key to income investing is finding companies that have consistently increased their dividends year after year. In fact, companies that have steadily increased their dividends for 25 years have outperformed the S&P 500 since 2000.



Source: *Money,* January/February 2010. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results.

Dividends may not only help provide income but could also point the way toward possible investment opportunities. Aside from the potential for steady payments, dividends can be a good way to assess a company's health, quality of earnings, and future prospects. In fact, research shows that companies that have started or consistently increased dividend payouts since 1972 have outperformed the broader market.[1]

Companies that pay dividends tend to be large and well established, and their stock may be appropriate in a conservatively allocated portfolio. Companies may elect to pay a dividend because they consider it to be a better option for distributing profits than reinvesting in the business.

Even though income stocks are theoretically less risky than growth stocks, the return and principal value of all stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

THE UNCERTAINTY OF TAXES

Under current law, qualified dividends are taxed at a maximum rate of 15%. For taxpayers in the two lowest federal income tax brackets (10% and 15%), the tax rate on dividends is zero.

However, these low tax rates are set to expire on December 31, 2010, unless Congress acts to extend them. If the special tax treatment is allowed to expire, dividend income taxation will revert to the rules that were in effect prior to 2003. Under these rules, dividend income is taxed at the same rates as ordinary income, which could be as high as 39.6%.

The possibility of higher dividend tax rates in 2011 is a factor to consider when investing in dividend-paying stocks. It would be wise to consult with a tax professional before taking any specific action.

Income stocks can offer a steady payout as well as the possibility of solid returns. Call today to discuss the role that income stocks can play in your portfolio.

1) CNNMoney, November 9, 2009

BOND FUNDS: *How Much Is Too Much?*

In 2009, the amount of money invested in equity mutual funds remained relatively flat while inflows to bond funds set record highs.[1] Many investors may have poured money into bond funds last year thinking that they could be an alternative to stock funds.

Bond funds can play a useful role in an investor's portfolio, such as helping to increase the level of diversification. However, investors who seek to avoid short-term market volatility by putting too much of their portfolios into bond funds may find themselves missing out on potential gains.

POTENTIAL PITFALLS

When investors shift to debt instruments following a period of stock market losses, they may miss out on any recovery that follows. Indeed, a hypothetical investor who completely cashed out of the stock market in February 2009 would have missed out on the 54.6% gain that stocks experienced from March 2009 through the end of the year.[2]

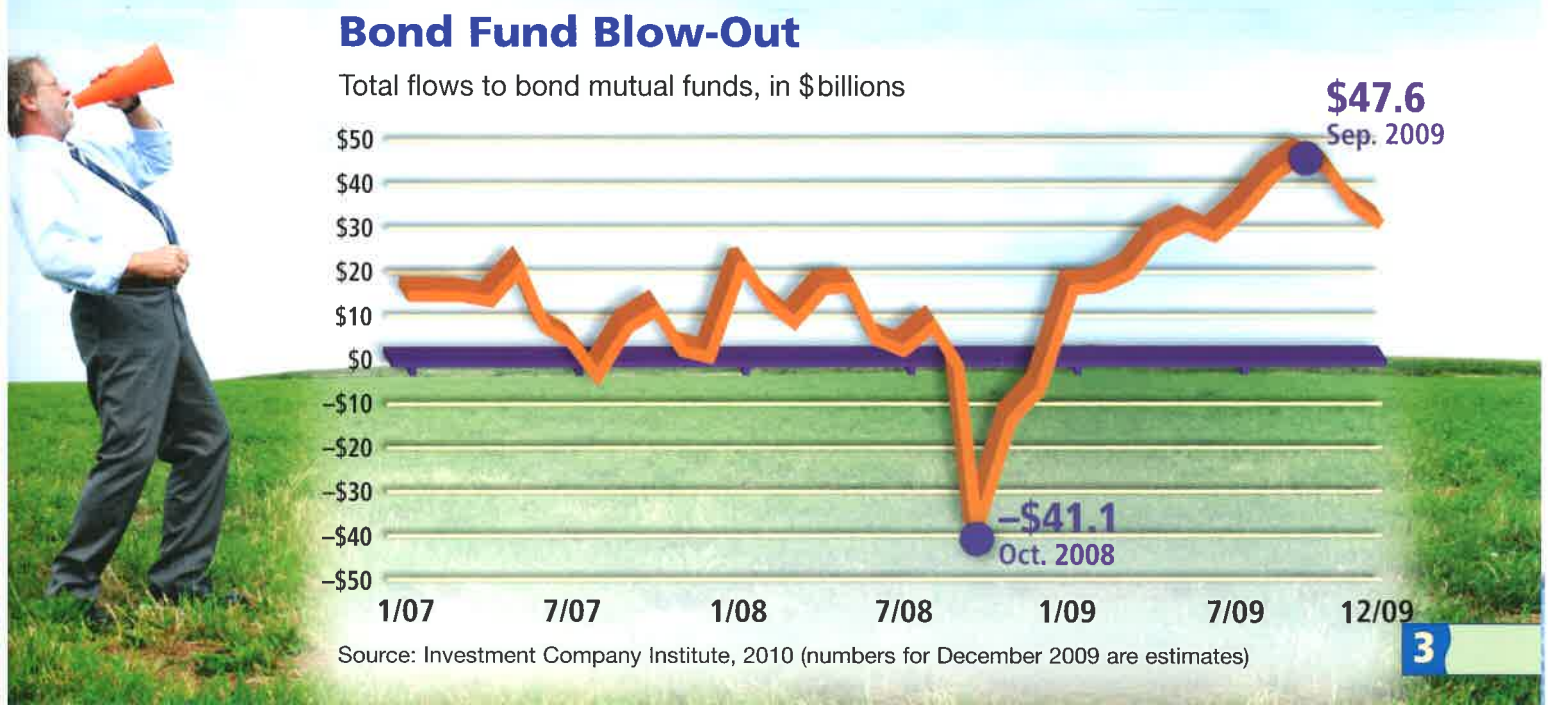
Although interest rates are currently fairly low, they will rise eventually. When interest rates rise, the value of existing bonds typically falls, which can adversely affect the performance of bond funds.

It is important to be aware of the difference between bonds and bond funds. A bond fund is a mutual fund that trades individual bonds and other debt instruments. There are several varieties of bond funds, whose mix of bonds depends on each fund's focus and stated objectives. Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds.

Including bond funds in a diversified portfolio can help reduce a portfolio's exposure to stock market volatility. However, bond funds generally shouldn't be viewed as a place to run when the stock market is trending downward. Any decision to purchase a bond fund should be based on your personal circumstances, such as your time horizon, risk tolerance, and personal goals. Diversification does not guarantee against loss; it is a method used to help manage investment risk.

Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) The Motley Fool, January 12, 2010
2) Thomson Reuters, 2010, S&P 500 Composite Index (total return) for the period 2/28/2009 to 12/31/2009. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results.



Source: Investment Company Institute, 2010 (numbers for December 2009 are estimates)

Save the **DATE**

It has been said that wisdom comes with age. However, as a counterpoint, someone once said, "Sometimes age just shows up all by itself."[1]

Either way, one thing that does come with age is eligibility for retirement benefits. There are several key retirement milestones tied to specific birthdays or ages. Take this quiz to see how "wise" you are when it comes to these important birthdays.

Match the following ages to their respective retirement milestones:

59½ 62 65 66 70½

____ 1. You become eligible for full Social Security benefits at this age, assuming you were born between 1943 and 1954.

____ 2. At this age you must start taking withdrawals from most employer-sponsored retirement plans and traditional IRAs (the first distribution must be taken no later than April 1 of the year after you reach this age). Required minimum distributions are calculated based on life expectancy tables set by the IRS. The penalty for failing to take a required distribution is 50% of the amount that should have been withdrawn.

____ 3. You are eligible for Medicare coverage at this age.

____ 4. You can take penalty-free withdrawals from employer-sponsored retirement plans, IRAs, and annuities. Before this age, withdrawals are subject to a 10% federal income tax penalty. Distributions from tax-deferred retirement plans are subject to ordinary income taxes (with annuities, only earnings are taxed).

____ 5. You are eligible to start collecting reduced Social Security benefits. Collecting benefits early may permanently reduce your benefit by up to 30%.

1) ThinkExist.com, 2010 (quote is by Tom Wilson)

Answers: 1. 66 2. 70½ 3. 65 4. 59½ 5. 62

Are you concerned about the role that bond funds play in your portfolio? Interested in dividend-paying stocks? Call today to discuss both the specific and broad implications of your long-term investing strategy.

Working toward a better financial future,