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FINANCIAL ink

Your Money Management Newsletter

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*Snap*SHOTS

IS TAX DODGING OKAY?

Although 13% of taxpayers surveyed said cheating on income taxes is acceptable, most taxpayers don't agree.

Source: IRS Oversight Board, 2010

Up FRONT

760

Credit score needed to qualify for the best rates on a home mortgage

Source: *Money,* May 2010

Quick HITS

ETF assets grew from $482 billion to over $805 billion between March 2009 and March 2010.[1]

Only 2% of taxpayers with incomes between $200,000 and $1 million are likely to be audited by the IRS.[2]

A majority of voters in every age group expressed at least some enthusiasm about voting in the November 2010 mid-term elections.[3]

Saving money is regarded as an integral part of everyday life by three-fifths of Americans.[4]

The S&P 500 had an average annual return of 8.2% over the past 20 years.[5]

Sources:
1) Investment Company Institute, 2010
2) *Money,* May 2010
3) Gallup, 2010
4) *InvestmentNews,* April 26, 2010
5) Thomson Reuters, 2010 (S&P 500 Composite Index total return for the period 12/31/1989 to 12/31/2009)

Practical insights for your **FINANCIAL GOALS**

Branching Out with **ETFs**

The bull market was a boon to exchange-traded funds (ETFs). Between March 2009 and March 2010, a period marked by rapidly rising stock prices, ETF assets nearly doubled to $805 billion.[1]

ETFs have many features that may have helped them enjoy this surge in popularity. Understanding the benefits offered by ETFs may help you decide whether they are appropriate for your portfolio.

An ETF is usually formed by an investment company that builds a portfolio of securities mirroring a particular index or representing a sector or industry. The investment company sells shares in the fund that represent equal ownership in the underlying securities. ETF share prices are determined by a number of factors, including demand for the shares themselves, the value of the underlying securities, and other variables that may cause the shares to trade above or below the value of the underlying securities.

Unlike mutual funds, which are priced only once each day, ETF prices can move throughout the trading day. The principal value of mutual funds and ETFs will fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

LOWER FEES, PLEASE

Exchange-traded funds that are passively managed tend to have lower expense ratios than both actively managed and indexed mutual funds. However, most investors must pay a commission to trade ETF shares because they cannot buy them directly from the issuing investment company.

FAST LANE TO DIVERSIFICATION

Because a single ETF share represents a basket of underlying securities, ETFs offer an easy and low-cost way to diversify your portfolio. If you wanted to imitate the range of investments in a given ETF, purchasing the securities on your own could be prohibitively expensive. Diversification does not guarantee against loss; it is a method used to help manage investment risk.

Exchange-traded funds and mutual funds are sold 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.

ETFs can be tricky to understand and they're not appropriate for everyone. Call today if you'd like to discuss how exchange-traded funds might help you pursue your financial goals.

1) Investment Company Institute, 2010

Viva Variety!

With over 800 funds to choose from, exchange-traded funds offer investors a broad range of investment options.

Source: Investment Company Institute, 2010 (total ETFs as of March 2010)

Preparing for **MID-TERMS**

Traditionally, mid-term elections tend to attract fewer voters than presidential elections. It's not clear whether 2010 will be different, but if voter enthusiasm is any guide, this year's mid-terms could break with the past. A Gallup poll found that a majority of voters in every age group expressed at least some enthusiasm about voting in November (see chart).[1]

One reason for the enthusiasm could be because there are several key financial issues at stake this year. In some cases, your personal finances could be affected by the election outcome.

TAX POLICY

A number of tax laws are set to expire after December 31. As a result, many tax rates are slated to revert to higher levels, especially for investors and high-income earners.

Although Congress could decide to extend the lower rates for some or all taxpayers, the federal government is facing trillions of dollars in mandated spending and a national debt that is growing at an unprecedented rate. Many experts believe the only way Congress will be able to meet these obligations is by raising taxes. Although the election outcome will almost certainly have an effect on near-term tax policy, it's probably a good idea to expect tax rates to be higher in the future and to look for legal ways to help reduce your tax burden.

STIMULUS SPENDING

Although the $787 billion Recovery Act continues to pump money into the economy, there is little agreement over the effect it has had on economic activity and the high unemployment rate. The White House maintains that the stimulus package is on track to save or create 3.5 million jobs by the end of 2010, but 62% of Americans and 73% of private-sector economists believe the spending has not helped create jobs.[2–3] Some officials have warned that when the stimulus spending ends in 2011, there could be layoffs of state and local government workers because some of the money was used to avoid layoffs in 2009 and 2010.[4] The debate over the effectiveness of using borrowed money to stimulate the economy could play a pivotal role in the election.

HEALTH-CARE REFORM

The sweeping changes called for by the health-care legislation passed in March 2010 aren't set to be fully implemented until 2014. Between now and then, look for health-care reform and its effects on the economy to be an ongoing political issue.

Regardless of your enthusiasm for participating in the upcoming elections, it's important to consider how the 2010 mid-terms could affect your finances.

Election Excitement

Older Americans are more enthusiastic than younger voters about voting in the upcoming 2010 mid-term elections.

Age	Very enthusiastic	Somewhat enthusiastic	Not enthusiastic
18–29	23%	28%	47%
30–49	32%	26%	41%
50–64	44%	22%	32%
65+	41%	24%	29%

Source: Gallup, 2010

1) Gallup, 2010
2) Pew Research Center, April 28, 2010
3) CNNMoney, April 26, 2010
4) *The Wall Street Journal*, February 17, 2010

Finding Your **BALANCE**

As an investor, you hardly need to be reminded about market volatility, having lived it for the past several years. Even though the S&P 500 had an 8.2% average annual return from 1990 to 2009, the index has still seen some remarkable gains and losses (see chart).[1]

One way to help manage volatility is through asset allocation. But this process of determining the appropriate proportion of assets based on your financial goals, risk tolerance, and time horizon is not a set-it-and-forget-it strategy. Once you have implemented your preferred asset allocation, it's time to stick to your strategy.

Over time, the performance of the different investments in your portfolio will invariably cause your allocation to change. Taking time to periodically rebalance — that is, to buy or sell investments to bring your asset mix in line with your target allocation — may help you be in a better position to pursue your long-term goals.

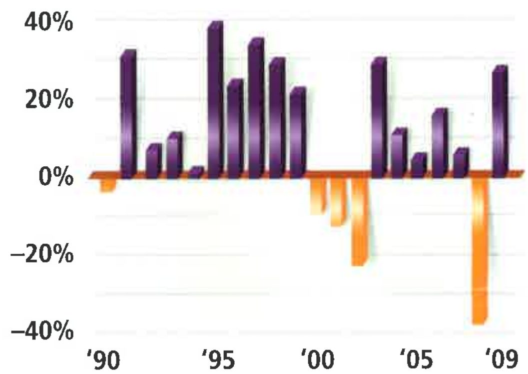
Rebalancing can help you stick to your investment strategy. It may also help you avoid the pitfalls of market timing, chasing performance, and overexposing your portfolio to one asset class.

In the process of rebalancing your portfolio, you may incur commission costs as well as taxes if you sell investments for a profit. Therefore, it may not be a good idea to rebalance too frequently. Generally, once a year should suffice. However, you may also want to rebalance whenever the percentage of an asset class rises above a certain threshold, say 5% to 10% over your preferred asset allocation, or if your risk tolerance changes.

Asset allocation does not guarantee against investment loss. It is a method used to help manage investment risk.

1) Thomson Reuters, 2010 (S&P 500 Composite Index total return for the period 12/31/1989 to 12/31/2009)

Annual Returns for the S&P 500



Source: Thomson Reuters, 2010. The S&P 500 Composite Index (total return) is generally considered representative of the U.S. stock market. 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. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

New tax laws are expected to take effect over the next few years because of health-insurance reform and the sunset dates in the 2001 and 2003 tax laws. We can help determine how you might be affected.

Working toward a better financial future,