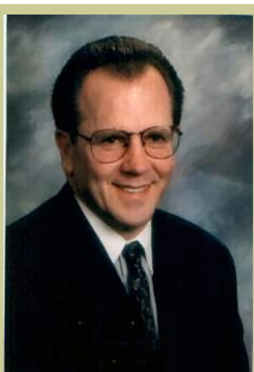

The Strategic Advisor

Strategies for Success

April 2008

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In this issue:

Strategic Wealth Advisors, LLC

It's Not What You Earn--It's What You Keep

You work hard for your money. So why shouldn't you try to keep as much of it for yourself as you can? Here are some ways to pay less tax and keep more of your hard-earned dollars.

Tax deferrals rule

Take advantage of tax-deferred retirement plans, such as 401(k), 403(b), and 457(b) plans, offered by your employer. They all allow you to make pretax contributions of up to $15,500 in 2008 ($20,500 if you're age 50 or older), and 403(b) and 457(b) plans may also have special catch-up rules that might let you defer even more. The tax savings can be significant. For example, if your marginal tax rate is 28% and you defer $15,500, you'll save $4,340 in current taxes. Your $15,500 contribution will generate tax-deferred earnings for you until you withdraw the funds from the plan, when you may be in a lower tax bracket. And, if your employer matches your contributions, the deal is even sweeter.

Another common way to use tax deferrals to save more of what you earn is by setting up a health-care flexible spending account (FSA) at work. Your contributions reduce your taxable income, saving current taxes, and the funds you set aside can be withdrawn tax free to pay a wide variety of health-related expenses that aren't covered by your health plan. See IRS Publication 502, *Medical and Dental Expenses*, for a list of qualifying expenses.

And don't forget traditional IRAs. If neither you nor your spouse is covered by a retirement plan at work, and you're not yet 70½, you can make a deductible contribution of up to $5,000 to an IRA in 2008 ($6,000 if you're age 50 or older). Even if you or your spouse is covered by a plan, all or part of your contribution may be deductible, depending on your income.

But tax free is even better

If you're an income-oriented investor, consider investing in municipal bonds. The income generated is free from federal income taxes and, in some cases, state income taxes as well. (Be sure to compare yields between taxable and tax-free securities, and keep in mind that certain municipal bond income may be subject to the alternative minimum tax.)

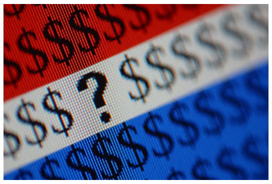
Another way you can generate tax-free income is by contributing to a Roth IRA, Roth 401(k), or Roth 403(b) plan. Unlike pretax deferrals, Roth contributions don't reduce your income, so there's no current tax savings. Because you've already paid tax on your contributions, they won't be taxed again when you withdraw them from the plan. But what really sets Roth contributions apart, and makes them so appealing, is that all earnings are also tax free if you satisfy a five-year holding period and certain other requirements are met.

If you have children, don't pass up the tax incentives offered by Section 529 plans and Coverdell education savings accounts (ESAs). Again, your contributions to these plans aren't tax deductible, but your savings grow tax deferred and withdrawals are tax free at the federal level (and typically at the state level too) when used to pay qualifying educational expenses. You can contribute up to $2,000 to a child's Coverdell ESA in 2008, and most 529 plans let you contribute more than $300,000 over the life of the plan.

Think long term--for capital gains

Long-term capital gains tax rates are currently very attractive--a maximum of 15% through 2010. Short-term capital gains, on the other hand, are generally taxed at ordinary income tax rates--currently as high as 35%. To qualify for long-term capital gains treatment, make sure you hold your securities and other capital assets for more than one year before selling them.

Coping with a Slower Economy



Economics isn't called the "dismal science" for nothing. There's an old joke that accuses economists of having predicted 9 of the last 5 recessions (and yes, those figures are in the correct order). However, forecasting the direction of the economy can seem easy compared with trying to figure out how to weatherproof your finances. It can help to understand some of the questions that many investors ask themselves if they're concerned about the potential impact of slower growth.

Is it time to check my portfolio?

Changing consumption patterns can have implications for a variety of companies and industries, and create investing opportunities. Some investing sectors might be especially economically sensitive and might therefore suffer from any economic downturn. On the other hand, some industries or companies may actually benefit from a slower economy. For example, companies that produce high-end goods might be relatively immune from economic pressures--or maybe not. Shifts in spending patterns could also mean that consumers continue to spend money but choose less expensive alternatives, or focus more on getting the greatest value from each dollar.

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If you rely on your investments for income, you may want to review how sensitive your portfolio might be to changes in interest rates. If the Federal Reserve Board sees greater danger from a slowing economy than from the possibility of higher inflation, lower interest rates could cut into your income. Conversely, if the Fed becomes increasingly concerned about inflation, rates could go up. It might be a good time to see whether the yields you're receiving are competitive, and what kind of impact on your monthly income you might expect from any changes in rates.

Should I review my asset allocation?

Now might also be a good time to reexamine how your assets are divided among various types of investments. If you decide you need to shift a portion of your portfolio, those changes don't necessarily have to be made all at once. Consider:

- Adjusting only a portion of your bond or stock holdings
- Using systematic investing to shift allocations over time
- Investing any new money differently to increase your exposure to asset classes you may have neglected

How close am I to the edge financially?

The benefits of reducing debt should be pretty obvious, given the recent credit crisis. Troubles in the mortgage industry have driven home the importance of managing debt wisely. The last thing you need if you're worried about uncertain economic times is to lock yourself into spending patterns that push you beyond your means.

Whether the economy is in robust health or seems to be catching the flu, it's never a bad idea to have a cushion against unexpected financial stress. An unanticipated medical emergency--and is there any other kind?--a sudden job loss, or anything else that affects your income stream can bring the effects of a slower economy home in a dramatic way.

If you're employed in a highly cyclical industry or one that's undergoing substantial changes, having a financial reserve becomes even more important. And if a lot of your retirement plan savings are invested in your employer's stock, think about whether your long-term finances might potentially face a double whammy. Serious financial trouble at your company could mean the possibility of layoffs, a drop in the value of your holdings--or both.

Have I planned for the unexpected?

If you're planning to retire in the next few years, consider the potential impact if you were to be "retired" prematurely. It's easy to assume you'll work until a certain date or earn income after retirement, but health concerns and the job market don't always permit that. Doing some "what if?" calculations with an earlier retirement date than you might otherwise choose could prepare you for what might happen if you were laid off and had difficulty finding new employment, or were unable to work for health reasons.

A transition to a post-retirement career is likely to be easier if you plan thoroughly. For example, launching a small business can be challenging under the best of circumstances; try to have as much of the groundwork laid as possible before relying on it for your entire income. Sales estimates that are more conservative than they might otherwise be may help minimize cash flow problems.

Asking questions such as these lets you hope for the best while preparing for the worst.

Retiring Overseas: A Passport to Adventure

If the roughly 6.6 million Americans living abroad were collected into one state, it would have the 16th largest state population in the United States, according to the Association of Americans Resident Overseas. For many people, the idea of spending retirement on a beach in Mexico or buying a daily baguette in a French village is what makes all those retirement plan contributions worthwhile. If you're one of them, here's a sampling of some of the issues to research before packing your bags.

The cost of living

If you're hoping to stretch your retirement dollars in a lower-cost country, try to determine in advance whether your prospective new home is inexpensive partly because it lacks critical services you take for granted. Also, think carefully before making a permanent move. If you want to return to the United States later, you risk not being able to afford higher costs again. Also, if you're concerned about unfavorable exchange rates, check out countries with a currency pegged to the U.S. dollar.

If you plan to supplement your retirement income with some sort of work, consider not only prevailing wages and the job market, but whether there are restrictions on employment of foreigners. Dealing with a local bureaucracy to obtain a residence visa or work permit, or to start a small business, can be challenging. And if your work relies on online access, research the availability, type, and costs of a connection, including whether it involves expensive long-distance phone charges.

Tax issues

As a U.S. citizen, you'll have to file a tax return with the IRS, and you'll be subject to U.S. income taxes on your total global income. However, if you meet certain requirements, you may qualify to exclude up to $87,600 (in 2008) of any foreign earned income (check IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad* for details).

You also may owe taxes to your new country. Some countries exempt income received from your home country, but do not exempt income earned locally. Your tax status abroad may be determined by your length of residence. It may be helpful to segregate money you made before leaving the United States from money you may earn in your new country, or that you earn in the United States after the move. Some countries tax various sources or types of income differently; keeping them separate may enable you to benefit from tax advantages on capital gains, dividends, or earned income.

Also, consider a country's total tax structure. Even in places that seem to have a tax advantage, taxes may simply be imposed differently. For example, a country with lower income taxes may also have a steep consumption tax.

Tax issues involved with living overseas can be complex; seek expert advice in advance of any move.

Health care

Medicare coverage does not extend overseas. If you're contemplating a semipermanent residency abroad, you'll need to research what health insurance options are available to you. Some countries restrict participation in their government-sponsored health insurance programs; others may require you to have private insurance in order to get a visa.

Even if you have private insurance, verify that you'll be covered abroad, and that hospitals and doctors in your chosen country will accept that insurance. Also, make sure that any preexisting conditions will be covered.

Housing

Moving to an area with an existing expat community could ease your transition; they're often a reliable source of important local information that isn't in any book. However, an influx of foreigners also may have driven up property prices beyond your expectations.

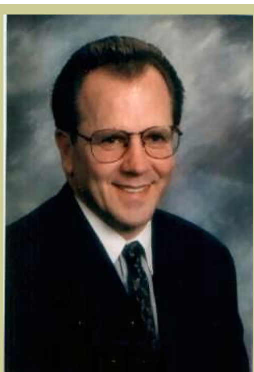
Attractive property values aren't always a plus, though. If you're contemplating buying a home, find out whether low prices are the result of an unstable economy, and whether there are restrictions on property purchases by foreigners. Renting for a while before buying gives you time to do valuable research.

Find out in advance whether getting a mortgage is an option. U.S. banks typically prefer to lend money for homes here, and there may be restrictions abroad that prevent you from obtaining a mortgage there. In addition, use a reputable local agent when contemplating a property purchase, and double-check to ensure that any prospective seller is actually authorized to sell to you.

These are only a few of the myriad issues you may face. The more you know, the better prepared you'll be for the inevitable surprises that come with a new and different life abroad.

Research resources

- *The official U.S. government site (www.usa.gov) has advice about living abroad. So does the U.S. State Department (travel.state.gov)*
- *The Association of Americans Resident Overseas (www.aaro.org) is an advocacy group for citizens living abroad*



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Ask the Experts

What can we learn from the subprime mortgage mess?

The collapse of the subprime mortgage market and the jitters it's sending through the entire economy contain lessons for us all. Here are a few:

If it sounds too good to be true, it probably is. Based in part on wishful thinking ("housing values will always appreciate") and in part on misleading information ("that's a great rate"), many homebuyers became convinced they could afford mortgages they later found they really couldn't. Similarly, many investors were led to believe that mortgage-backed securities were all about huge rewards with minimal risk. So, the lesson here is: When faced with what appears to be a rosy best-case scenario, always remember to ask "But what if …?"

Experience counts. When seeking a mortgage broker, loan originator, investment firm and/or fund manager, check out their credentials, and look for those with lengthy experience who are respected within their fields.

Read (and understand) the fine print. Many people, both homebuyers and investors, got burned in the subprime mortgage mess because they didn't know the details of the contracts they entered--and the devil is always in the details. Review all mortgage documents and/or investment prospectuses carefully before you make a commitment. If you don't understand the ramifications of what you've read, seek assistance from an unbiased qualified professional.

The best regulation is self-regulation. Federal regulations designed to protect the consumer cover many loans resold to quasi-government agencies like Freddie Mac, and loans insured by the Federal Housing Administration also carry strict guidelines. But oversight of these loans is not always as diligent as it should be. What's more, many mortgages are now originated by unregulated nonbank lenders. As a result, you shouldn't assume that governmental and/or institutional regulations will always protect you from getting into financial trouble. Only you can do that.

When's the best time to refinance my mortgage?

Any time you can refinance your mortgage to save money is a good time to contemplate doing so. Generally, there are two situations when it may be wise to consider this.

If you have an adjustable rate mortgage (ARM) and the rate is about to go up (either because your existing loan is scheduled to reset or because the economy enters a period of rising interest rates), you may save money if you can refinance to a fixed rate mortgage--particularly if the fixed rate is similar to or lower than your current ARM rate.

The other time it's a good idea to refinance (even if you already have a fixed rate loan) is when you'll save money by getting a lower interest rate. An old rule of thumb said that you shouldn't refinance unless the new interest rate will be at least 2% lower than your existing rate, but (depending on the refinancing cost) even a much smaller differential may be worthwhile to some homeowners.

Your refinancing cost is the total of any points, closing costs, and private mortgage insurance premiums (if any) that you'll have to pay when you take out the new loan. Ultimately, it may make sense to refinance if you'll recoup the cost of doing so while you still own the home.

To determine the time it'll take to recoup your refinancing cost, divide that figure by the monthly mortgage payment savings you'll realize by refinancing. The result indicates how many months you'll need to stay in the home to recoup your cost. If you don't remain in your home long enough to recover that cost, then refinancing may not be worthwhile.

One final note: If you're experiencing cash flow difficulties, you may be tempted to lower your monthly mortgage payments by refinancing to extend the term of the loan. From a savings perspective, this is not a good reason to refinance. Unless you get a lower interest rate on the new loan as part of the bargain, you're not really saving any money; in fact, you may end up owing more. Extending the term without changing anything else may alleviate your short-term cash flow problem, but it'll cost you more total interest in the long run.

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