The Strategic Advisor

Strategies for Success

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HAVE A MERRY CHRISTMAS AND A HAPPY NEW YEAR!

It is my pleasure to be able to provide information that can aid you in building your financial future. I hope you enjoy the content and find it helpful. If I can be on any assistance please feel free to call. We can discuss any of your concerns without obligation. Wishing you well as you travel the road to financial independence.

In this issue:

Strategic Wealth Advisors, LLC

Are You Ready for a New Career?

A higher salary. More job security. Doing what you love. A chance to give back. Changing careers can be rewarding for many reasons, but career transitions don't always go smoothly. Your career shift may take longer than expected, or you may find yourself temporarily out of work if you need to go back to school or can't immediately find a job. Fortunately, planning for the financial impact can make the transition much easier.

Do your homework

You'll want to make sure that you clearly understand the steps involved and the financial consequences of a career move. How long will it take to transition from one career to the next? How will changing careers affect your income and expenses, both in the short term and the long term? Will you need additional education or training? If so, how will you cover the expense? How will your career move affect your health, life, and disability insurance coverages?

Going back to school?

Find out if you qualify for federal education tax benefits that can help defray your costs, such as the Lifetime Learning credit and the student loan interest deduction. See IRS Publication 970, Tax Benefits for Education, for more information.

You should prepare a realistic budget and a timeline for achieving your career goals. And if you haven't already done so, save up an emergency cash reserve that you can rely on, if necessary, during your career transition. It's also a good time to reduce outstanding debt by paying off credit cards and loans.

And here's another suggestion. Assuming it's possible to do so, keep working in your current occupation while you're taking steps to prepare for your new career. Having a stable source of income and benefits will make the planning process much less stressful.

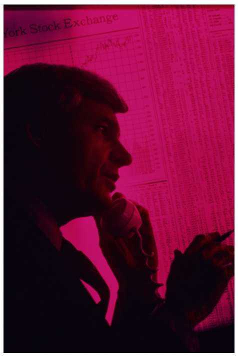
Hands off your retirement savings

Planning ahead can also help protect your retirement savings. When confronted with new expenses or a temporary need for cash, people tend to look at their retirement savings as an easy source of funds. But raiding your retirement savings, whether for the sake of convenience, to raise capital for a business you're starting, or to satisfy a short-term cash crunch, may severely limit your plans for the future. Although you may think you'll be able to make up the difference in your retirement account later--especially if your new career offers a much higher salary--that may be easier said than done. In addition, you may owe income taxes and penalties for accessing your account funds early.

Get help from others who have been there

When contemplating a career move, there's really no substitute for getting help from people who understand the hurdles you'll face when changing professions. Talk to a specialist--depending on your goals, this may be a career counselor, a small business representative, or an individual who holds a job in your desired profession. A financial professional can also give you insight into the potential impact of a career move and help you take steps to protect your finances.

Capital Gains: A Double-Edged Sword at Tax Time



It's no fun to look at your mutual fund statement and realize that you've had losses for the year. It's even more painful if you discover that, in addition to suffering a paper loss, you owe taxes on the fund's distribution of capital gains. It's a question that puzzles a lot of investors: How can you owe taxes on an investment that has lost money?

The answer has to do with the difference between your profit when you sell fund shares, and the fund's profit when it sells individual securities. As a fund buys and sells securities during the year, it will typically have some gains and some losses. At the end of the year, losses are subtracted from gains to determine the fund's shareholder distribution. The fund also may use losses from previous years to help offset gains.

By law, gains and/or income must be distributed each year; typically, those distributions occur around the end of the year and are taxable (unless the fund is held in a tax-advantaged account such as an IRA). Even if a fund is down at the end of that year, it may still have capital gains from earlier sales of securities.

Example: *In 2002, Harry's stock fund bought 10,000 shares of XYZ Corporation for $33 a share. By the end of last year, the share price had reached $50, helping to push up the net asset value (NAV) the fund reported on its year-end statement to shareholders. This year, XYZ's price drops to $43. The fund's manager, concerned that XYZ might fall still further, sells the shares for a $100,000 profit. However, other shares held by the fund drop in value, and Harry's end-of-year statement now shows a lower balance compared to the year before. Because the fund did not sell shares to realize losses, it must still pass its $100,000 XYZ profit on to shareholders as capital gains distributions.*

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Good news, bad news

Owing taxes on distributions from a fund that's down is especially likely in years when a fund experiences substantial redemptions. If your fellow investors in a mutual fund have been pulling money out, the manager might have had to sell securities in order to meet those redemption demands. High market volatility also could mean a greater than usual level of capital gains distributions by funds with managers who traded actively, either to try to lock in gains or avoid further losses.

Some capital gains distributions this year may be affected by what happened in 2000-2002. Many funds that suffered during the bear market could use those losses in subsequent years to offset any capital gains and minimize that year's taxable distribution. However, many funds have now used up their losses from the down years, leaving their managers with fewer leftover losses to offset any current gains from selling individual securities.

Tax factors to consider in fund selection

One way to minimize such problems is to consider a fund's tax efficiency in advance. Taxes shouldn't be the single deciding factor in any investment decision. However, when assessing the capital gains impact of a potential purchase, consider the following points:

- Some mutual funds tend to be more susceptible to the capital-gains dilemma than others. For example, funds with a high turnover ratio buy and sell more often and may generate more capital gains distributions.
- Some actively managed funds are designed specifically to be tax efficient, taking capital gains into account when making trading decisions.
- A fund's long-term capital gains will be taxed at a more favorable rate than its short-term gains.
- Bond funds can experience capital gains and losses from the sale of individual bonds.
- Each mutual fund must report its after-tax return in its prospectus.

In the small consolation department …

If you are squeezed by both a loss in your fund's value and a capital gains distribution this year, remind yourself that at least the maximum tax rate on long-term capital gains and qualified dividends is 15% until January 1, 2011 (less if you're in the 15% or 10% tax bracket).

You also may be able to offset capital gains from one mutual fund by taking a capital loss on another investment. A financial professional can help you assess the potential tax impact of a given mutual fund, as well as the best way to manage any capital gains liability.

Income in Retirement

You've worked hard your whole life, anticipating the day you could finally retire and enjoy your golden years. Well, that day has arrived. There's still work to be done, however--you'll need to carefully manage your assets so that your retirement savings will last as long as you need them to.

Review your portfolio regularly

It's commonly said that retirees should value the safety of their principal above all else. For this reason, some people shift their investment portfolio to fixed-income investments, such as bonds and money market accounts, as they approach retirement. The problem with this approach is that if returns don't keep up with inflation, an investment portfolio may not enjoy the growth needed to fund today's longer retirements.

So while there are good reasons to invest more conservatively as you grow older, consider maintaining at least a portion of your portfolio in growth investments.

Choosing a sustainable withdrawal rate

A key factor in determining whether your assets will last for your entire lifetime is the rate at which you withdraw funds. The more you withdraw, the greater the likelihood you'll exhaust your resources too soon. On the other hand, if you withdraw too little, you may not enjoy your retirement as much as you could. It's vital that you estimate an appropriate withdrawal rate for your circumstances, and determine whether you should adjust your lifestyle and/or estate plan.

An appropriate withdrawal rate depends on many factors, including the value of your current assets, your expected rate of return, your life expectancy, your risk tolerance, inflation, your expenses, and whether you want some assets left over for your heirs.

Studies have tackled this issue, resulting in the creation of tables and calculators that can provide you with a range of rates that have some probability of success. A financial planning professional can help you with this.

Which assets to draw from first?

Most retirees have assets in accounts that are taxable (e.g., CDs, mutual funds), tax deferred (e.g., traditional IRAs), and tax free (e.g., Roth IRAs). Given a choice, which type of account should you withdraw from first? The answer is--it depends.

For retirees who don't care about leaving an estate to beneficiaries, the answer is simple in theory: withdraw money from taxable accounts first, then tax-deferred accounts, and lastly, tax-free accounts. By using your tax-favored accounts last, and avoiding taxes as long as possible, you'll keep more of your retirement dollars working for you.

In practice, however, your choices, to some extent, may be directed by tax rules. Retirement accounts, with the exception of Roth IRAs, have minimum annual withdrawal requirements. In general, your first withdrawal must be made by April 1 of the year following the year you turn age 70½, with subsequent distributions due each December 31. Failure to do so can result in a 50% excise tax imposed on the amount by which the required minimum distribution exceeds the distribution you actually take.

For retirees who intend to leave assets to beneficiaries, the analysis is more complicated. You need to coordinate your retirement planning with your estate plan. For example, if you have appreciated or rapidly appreciating assets, it may be more advantageous for you to withdraw from tax-deferred and tax-free accounts first. This is because these accounts will not receive a step-up in basis at your death, as many of your other assets will.

However, this may not always be the best strategy. For example, if you intend to leave your entire estate to your spouse, it may make sense to withdraw from taxable accounts first. This is because spouses are given preferential tax treatment with regard to retirement plans. A surviving spouse can roll over retirement plan funds to his or her own IRA or retirement plan, or, in some cases, may continue the deceased spouse's plan as his or her own. The funds in the plan continue to grow tax deferred, and distributions need not begin until the spouse's own required beginning date.

By planning carefully, investing wisely, and spending thoughtfully, you can increase the likelihood that your retirement will be a financially secure one.

While there are good reasons to invest more conservatively as you grow older, consider maintaining at least a portion of your portfolio in growth investments.

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Ask the Experts

What is concierge health care?

Concierge health care is a primary-care arrangement that requires you, the patient, to pay your physician an annual retainer fee (often over and above your health insurance premiums) in exchange for improved access and services.

Such retainer fees may range from a low of $1,500 to as much as $20,000 per year. (The more you pay, the more services you get.) In exchange, you receive same- or next-day appointments (with no reception-room waiting), extended office visits, 24/7 telephone and/or e-mail access to your doctor, an annual intensive physical, and (if you pay the higher fees) house calls, home delivery of prescribed medications, and continuous personalized care. Your primary care doctor may even accompany you to appointments with specialists, and will coordinate your care even during hospital stays, rather than handing you over to the hospital's staff physicians.

In a concierge health-care plan, your doctor sees fewer patients (the average caseload is 300, compared to 2,500 for doctors in managed-care plans). While some concierge plans don't accept health insurance, most do. Whenever possible, your doctor will bill your health insurance provider (or Medicare) for payment for services provided.

However, most health insurance plans require participating doctors to accept the plan's rates as payment in full for the covered services, and Medicare generally prohibits doctors from charging Medicare recipients anything more than what Medicare pays. As a result, concierge health-care providers who participate in Medicare must be careful to charge annual retainer fees only for services health insurance or Medicare won't normally cover.

While concierge health care obviously has its perks, you should make sure you understand exactly what is covered by the annual retainer fee before you sign up for it.

What's the difference between an HMO and a PPO?

Both health maintenance organizations (HMOs) and preferred provider organizations (PPOs) are types of managed health-care systems that attempt to reduce costs through preventative medical care and various utilization management techniques.

As an HMO member, you pay a fixed monthly fee for health-care coverage, no matter how much or little medical attention you require. The HMO contracts for services with specific hospitals, clinics, physicians, and other health-care providers. With few exceptions, you must receive treatment from providers within the HMO "network." With the exception of a small co-payment, the HMO pays the providers directly for the services you receive.

Most HMOs also require you to choose a primary care physician (PCP) from the list of doctors under contract. Your PCP provides your general medical care and must often be consulted before you seek care from another physician or specialist (although this may vary, depending on your plan and state of residence). This screening process helps reduce costs to both you and the HMO.

While a PPO provides a list of "preferred" health-care providers you may choose from, you don't have to; you aren't required to select a PCP, and you may see any doctor or use the services of any clinic or hospital you wish. You are then reimbursed for the expense according to the terms of your PPO contract.

PPOs help keep health-care costs down by offering you financial incentives to seek services from "preferred" providers. For example, you may be reimbursed 90% of the cost of seeing a doctor selected from the list, but only 60% of the cost of seeing one not on the list.

In most cases, you must first meet an annual deductible (out-of-pocket) expense before your PPO insurance coverage begins. Beyond that, you may be required to make co-payments for services; however, your total annual out-of-pocket expenses (deductible and co-payments) are generally capped.