

Five Financial Strategies to Consider Now

Professional Advisors Help Investors Find the Silver Lining in Spite of Ever-Changing Circumstances

By Nancy Opiela

The economy just can't seem to hurl at us enough turbulence and change. Wall Street's changed. Global trade has changed. Real estate continues to change. There may be more to come. How about adding inflationary and tax changes to our future? Here are five strategies that should be considered to help bolster your portfolio in light of continuing economic changes.

1. Prepare for inflation. Believing inflation is almost a certainty, **John Jenkins**, president and CEO of Asset Preservation Strategies (www.asset-preservation.com), is moving as much as 20% of clients' portfolios into tangible asset categories that tend to do well in inflationary times -- energy, real estate, managed futures, and some commodities. Explains Jenkins, "Between the massive government debt and the unprecedented printing of money, inflation cannot be far off. To hopefully benefit, or at least not be hurt, by a spike in inflation it's prudent to start re-positioning your portfolio now."

Jenkins advocates broad asset allocation among cash, bonds, stocks, real estate and alternative investments to help control total portfolio risk, differentiating himself with an absolute return approach. In his view, the simple division of assets between stocks and bonds and commitment to a buy and hold philosophy doesn't work anymore. "Today we're looking at alternative asset classes and re-balancing more often," he notes. "With the specter of inflation in the distance, we're also paying close attention to fund expenses and the impact of taxes."

Terry Anderson, president of Wealth by Design & Management (www.wealthbydesignandmanagement.com), is also re-evaluating asset allocation to protect his clients from a potential spike in inflation. "If the rate of inflation increases dramatically, investing in corporate America may not be the best way to go," he says. "In an inflationary environment, it may take those companies 10 or 15 years to come back, and retiring baby boomers can't afford to wait that long. They have to find investments that are going to produce some type of positive results on an annual basis." Anderson is using more and more alternative investments (such as oil & gas limited partnerships, managed futures and equipment leasing) and fewer stocks and bonds.

Utility companies provide another alternative for equity shy, cash-heavy investors says **Jeff Carbone**, managing partner with Cornerstone Financial Partners (www.cornerstone-sai.com). "Utility companies are offering 6 to 8% on their dividends," he explains. "Clients are wary of equities, but because they are still turning on their lights and brewing the morning coffee, they appreciate that utilities companies aren't going away."

To encourage clients to buy utilities now when prices are low, Carbone stresses the industry's traditional reliability and focuses on companies in his own backyard, thereby appealing to investors' psychological bias toward companies they are familiar with.

Of course, inflation worries can be addressed most directly with Treasury Inflation-Indexed Securities (TIPS). While conventional Treasury bonds offer fixed semi-annual interest payments and a fixed principal payment at maturity, TIPS' principal values are linked to the Consumer Price Index (CPI) and adjusted every six months to reflect the effects of inflation. If the CPI inches up 2.5% over the course of the year, the principal value of a TIPS bond is adjusted upward by 2.5% and the fixed rate of interest is applied to the inflation-adjusted principal.

In addition to corporate bonds, he also favors international bonds, both as a hedge to inflation and a play on the U.S. dollar.

2. Invest with caution in real estate. Contradicting many recent headlines, **Jim Coleman**, founder and president of Coleman Financial Advisory Group (www.colemanadvisorygroup.com), believes investing in real estate would be ill-timed. “Every indication I have is we’re not as close to the bottom as the media would have us think,” he says. “Because we have to weather a drop in commercial real estate, the real buying opportunity may not come until 2012. For now, real estate is something to place on your radar screen and wait for it to float into your bull’s eye range.”

Specifically, Coleman notes that although debt is inexpensive and housing values have come down, young couples or those thinking of buying a second home need to balance the advantages of inexpensive debt and depressed prices with the risk that the cost of ownership property is likely to increase. “Potential buyers need to worry about hidden cost increases that could creep into the picture by way of increases in property taxes and insurance premiums. Those increases could absorb the savings being touted in news headlines.”

Patricia Hinds, personal wealth manager with Granite Financial (www.granitefinancial.net), adds that those considering purchasing a second home who are banking on rental income to pay the mortgage need to exercise particular caution. “If the downturn continues, you have to wonder whether people will be able to afford to rent your home,” she says. “Plenty of people opted for stay-cations this year.” In addition to a drop in expected rental income, Hinds notes homeowners could also face increased operational expenses if the rate of inflation increases.

As commercial real estate drops, small business owners may find a good opportunity to buy a building rather than continue to rent. Although the price may be right, **Brad Bofford**, managing partner with Financial Principles, LLC (www.financialprinciples.com), suggests that it will be important for business owners to consider the impact of cost of living increases on their cash flow. “Here in New Jersey, state income taxes are increasing retroactively to January 1,” he notes. “Depending on your income, you could be paying as much as 10 ¾ percent. These increases are happening in other states as well and folks find themselves getting squeezed from all directions,” he notes.

3. Re-evaluate and adjust your budget. In her work with divorcing clients or those who have been laid off, **Lisa Dickholtz**, president of Dickholtz Wealth Management (www.dickholtzwm.com) helps identify an accurate budget. Today that’s increasingly difficult. “Changes in my clients’ lives are exacerbated by the unsettled market and the expectation of more changes in the economic climate,” she says. “Ambiguity lies in insurance costs and taxes as well, which can also have an impact on budgets and lifestyle. Inflation is lurking, state and sales tax hikes are a probability, and who knows what costs will result from health insurance reform.” If you are able to save money through revised budgeting, Dickholtz suggests setting it aside to increase your emergency fund to 9 to 12 months of living expenses in cash or money markets (FDIC insured preferably) to help off-set the changes ahead. “Don’t wait until the end of the year to look at your budget. Times of uncertainty call for a fresh look now,” she adds.

4. Save taxes by deferring compensation. While many argue if tax rates go up, deferring salary into the future doesn’t make sense, **Brett Ellen**, president and CEO of American Financial Network (www.afn-net.com), thinks differently. “Qualified retirement plans like the 401(k) limit what you can invest. However, deferring compensation extends that limit, enabling you to buy more shares now when prices are low. Salary deferral could also bring your income under \$100,000, qualifying you to convert to a Roth this year,” he explains. “What’s more, in addition to a tax benefit this year and the promise of tax-deferred growth, if you invest your deferred compensation for more than ten years, when you begin withdrawals, you’ll pay taxes in the state where you currently reside, not where you earned the money. That’s a bonus if you retire to a state like Nevada where there is no state income tax.”

In short, Ellen views salary deferral not as a supplemental retirement plan, but as a salary extension plan. “Do it right and you could create a ten-year retirement income stream. That’s especially attractive in down market because rather than being forced to withdraw assets when your retirement accounts are under water, if you have another bucket to draw income from you can let retirement funds recover,” he says.

5. Review your estate plan. Any time you experience a substantial change in portfolio value, it makes sense to reevaluate your estate plan. Today, **Rusty Cagle**, founder and president of ASE Wealth Advisors (www.aseadvisors.com), says down values for non-tradable assets are creating estate planning opportunities. “If you have a profitable family business and revenue’s down 50 percent, consider selling 25 percent to a child via an interfamily loan. Ten years from now, the 25 percent you sold could be worth substantially more than your selling price, and the asset would be sitting outside of your estate,” he notes.

One thing is for sure, the uncertainties of today’s economic environment make it a good time to consult a qualified financial advisor to determine the best strategies for your individual situation.

Nancy Opiela is a freelance writer in Medfield, Massachusetts specializing in the financial services industry. She contributes to the CFA Institute’s CFA Magazine and a variety of Fidelity Investments’ publications.

Advisors quoted are representatives of and offer securities through Securities America Inc., a Registered Broker/Dealer Member FINRA/SIPC. Advisory services offered through Asset Preservation Strategies, Inc. or Securities America Advisors, Inc. Securities America is not affiliated with any firm named herein.

Securities America and its representatives do not provide tax or legal advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation.

This is not a recommendation to buy or sell securities, or of any particular asset allocation strategy. These investment guidelines are not intended to represent investment advice that is appropriate for all investors. Each investor’s portfolio must be constructed based on the individual’s financial resources, investment goals, risk tolerance, investing time horizon, tax situation and other relevant factors. Please discuss with your financial advisor before implementing an investment plan. Investment in securities involves investment risks including possible loss of principal and fluctuation in value. Past performance is no guarantee of future results. Previous investment strategies may not be successful under all investing situations.

Direct Real Estate is real estate that generates income or is otherwise intended for investment purposes rather than as a primary residence. It is common for investors to own multiple pieces of real estate that are used to generate rental income and profits through price appreciation. The tax implications for investment real estate are often different than those for residential real estate. Common examples of investment real estate are apartment buildings, multi-family housing, commercial and industrial properties. These forms of real estate are used to generate ongoing rental income from tenants. Those who invest in real estate also expect to generate capital gains as property values increase over time. Investments in REITs are subject to the inherent risks of direct investment in real estate such as price fluctuation, liquidity, and changes in interest rates.

Alternative investments can be subject to substantial risks including but not limited to the possibility that sale or redemption may be for more or less than the original amount invested, the absence of a public market for the securities, and no assurance that the stated objectives of the investment will be met. Some of the investments discussed in this communication are not available to the general public for investment, and may be purchased by accredited investors only. Oil and Gas and Equipment Leasing Partnerships are speculative, potentially illiquid investments and may not be suitable for all investors. Redemption may be at less than the amount invested, and the stated objectives of the partnership may not be met. Investment in these partnerships should not be made solely for the potential tax benefits. The alternative energy sector can be significantly affected by obsolescence of existing technology, short product lifecycles, falling prices and profits, competition from new market entrants, general economic conditions, fluctuations in energy prices and supply and demand of alternative energy fuels, energy conservation, the success of exploration projects and tax and other government regulations and policies. In addition, shares of the companies involved in the alternative energy sector have been more volatile than shares of companies operating in other more established sectors or industries.”

An investment in managed futures involves a high degree of risk, is speculative and volatile. An investor could lose all or a substantial part of his or her investment. There is no guarantee that an investment of this type will achieve its objectives. Managed futures funds’ high fees and expenses offset trading profits and reduce returns. Managed futures investments involve the use of significant leverage that may increase the risk of investment loss. Managed futures are not subject to the same regulatory requirements as mutual funds. An investment in managed futures funds is illiquid. There is no secondary market for managed futures funds, and there are restrictions on transfer of managed futures funds. A substantial portion of the trades executed with respect to managed futures investments may take place on foreign exchanges. Investing in commodities is often through futures trading, where the risk of loss in these contracts can be substantial. You and your advisor should carefully consider whether such trading is suitable depending on your financial situation. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains. The prospectus or offering document contains a complete description of the principal risk factors and each fee to be charged to your account.

International investing entails special risks including currency exchange fluctuation, government regulations, and the potential for political and economic instability.

Stock and bond values fluctuate in price so that value of an investment can go down depending on market conditions. Stock prices may fluctuate due to stock market volatility and market cycles, as well as circumstances specific to a company.

The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Like other Treasury notes and bonds, TIPS are exempt from state and local income taxes but interest payments are subject to federal income tax. In addition, gains from inflation adjustments to the value of the TIPS' principal are taxable in the year they occur, even though you won't get the cash until maturity.

Banks offer a money market deposit account, which earns interest at a rate set by the bank and usually limits the customer to a certain number of transactions within a stated time period. All of these types of accounts generally are insured by the FDIC up to the legal limit of \$250,000 and sometimes even more for special kinds of accounts or ownership categories. For more information on deposit insurance see FDIC brochure "Your Insured Deposits." The standard insurance amount of \$250,000 per depositor is in effect through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor for all account categories except IRAs and other certain retirement accounts, which will remain at \$250,000 per depositor.

Dividend yield investing may not be suitable for all investors. You should never invest solely on the basis of dividends. Higher dividends are not indicative of the quality of an investment. Additionally, higher dividends will result in lower retained earnings. As dividend yields may not be sustainable, income investors must be sure to analyze an investment carefully and their ability to sustain market fluctuations. Investments paying dividends do not carry lower risk. Dividend payments are not guaranteed by the issuing entity. The issuer can discontinue the dividend at any time.

Asset allocation seeks to maximize the performance of your investment portfolio using diversification and disciplined investing. However, using an asset allocation methodology does not guarantee greater or more consistent returns or lower risk when diversifying among different asset classes.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.