REGISTERED INVESTMENT ADVISORS

GORDON & ASSOCIATES
FINANCIAL ADVISORS, INC.

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Now's A Good Time To Reassess Your Finances

With so much going on in our lives, it's easy to put things off for another day. But getting your finances in order isn't something you should delay, especially given the recent turmoil in the economy.

If this goal seems daunting, it may help to break it down into smaller, more manageable tasks. The important thing is to get started on it now.

Organize your finances. Most people lose control of their finances because they don't have a clear system for managing them. You'll feel much better and save time and money if you resolve to sort and file paperwork quickly and set reminders so important deadlines don't sneak up on you. Online banking and bill-paying may also help.

Pay off high-interest and variable-rate debt. With real investment returns on the low side, it hardly makes sense to pay double-digit interest on credit cards or other debt. Look for ways to consolidate any outstanding debt at still-low fixed rates.

Max out tax-sheltered savings. Contribution ceilings for 401(k)s, IRAs, profit sharing, and other tax-deferred retirement savings plans have risen. Meanwhile, catch-up provisions if you're 50 or older may let you save more. Push your savings up to the new levels allowed. Meanwhile, if you have retirement savings sitting in a former employer's plan, consider rolling them into an IRA, especially if you'll give yourself better investment options.

Sort out college savings strategies. In particular, focus on the benefits of state-sponsored 529 college savings plans. Generally, 529s are a good deal, offering tax-free savings and distributions for educational expenses. And that first tuition bill is coming sooner than you could ever imagine.

Review your retirement plan. Make this an annual ritual. Be sure your plan reflects your latest goals and can handle unwelcome surprises. What if the pension you're counting on fails to materialize? What if Social Security goes away? What if you skip a year's saving to pay for your daughter's wedding? You get the idea.

Check your portfolio. In both up and down markets, maintaining a diversified investment mix can help keep you moving toward your goals. Schedule an annual check-up with your advisor to make sure your investment plan still fits your objectives, and don't forget regular rebalancing so allocations don't stray from their targets.

Consider global investing opportunities. Profitable investments may lay beyond our shores. And there are many low-cost options for entering these markets. Foreign investing does involve special risks, including currency and political risk, but it will allow you to broaden your holdings beyond the U.S.

Update your will. It's your most important estate-planning document,

(Continued on page 4)

Stocks May Sink Further, But Wise Investors Are Buying In

During the stock market meltdown, there has seemed to be no limit to how far prices can fall. And with each new plunge, everyone wonders, "How low can stocks go?"

Nobody can answer that question, and successful investors know they don't need the answer. They realize that when valuations are at historically low levels, it's a good time to buy stocks. After all, the adage is "Buy low, sell high," not "Buy at the lowest point and sell at the highest."

Top investors such as Warren Buffett and Jeremy Grantham began buying stocks while many others were panic-selling. Neither believed the market had necessarily hit the low point of the current economic crisis. Each saw bargain prices for some securities and took that opportunity to buy, even though there was a good chance prices would fall even further before climbing higher. "I haven't the faintest idea as to whether stocks will be higher or lower a month—or a year—from now," Buffett wrote in an op-ed article in *The New York Times (October 17, 2008)*. Yet he feels strongly that the purchases he makes now will pay off down the road.

Could Buffett and others have gotten even better prices if they had waited longer? As we now know in hindsight, yes. But investing is always a matter of taking calculated risks, and now, when share prices for many good companies have been beaten down so far, the calculation may show that it's time to buy.

The Tax Rules Of Buying Or Selling A Home

Though the mortgage-interest deduction may be the most obvious example of the government's largesse to homeowners, other significant breaks apply when you buy or sell a home. People buy or sell a home for lifestyle reasons and not for tax reasons. But knowing the tax rules can save you a bundle on a house sale by keeping your tax bills to a minimum. Consider these strategies.

Don't sell too soon. With the way that home prices have appreciated over time (despite the recent decline), selling your house could net you a major profit with no tax bill—unless you make your move too soon. If you've lived in a home for at least two of the past five years, you can exclude up to $250,000 of your gain from capital gains taxes; if you are married, you and your spouse can avoid taxes on a profit of up to $500,000. If you sell after just a year, however, you'll be taxed on your profit at the 15% rate for capital gains—and if you sell a place you've lived in less than 12 months, your gain is considered short-term, and taxed at your ordinary income rate of up to 35%.

Plead hardship. So-called hardship sales—necessitated by medical problems, divorce, job loss, or multiple births—could win you a tax break even if you sell before living in your home for two years. If you qualify, you'll get a reduced home-sale exclusion based on your amount of time in the house, expressed as a fraction of the ordinary two-year minimum. If you sold after 18 months, for example—three-quarters of the minimum—you could exclude a profit of up to three-quarters of the usual $250,000 or $500,000 exclusion.

Minimize your gains. If you have to pay tax on your profit, look for ways to increase your home's tax basis—for example, by including the closing costs you paid when you bought the house. A higher basis means a smaller gain. However, if you depreciated a portion of the house because you used it for business purposes—such as for a home office—you'll generally owe capital gains tax on some or all of the depreciated amount.

Latch onto a new tax credit. If you're a first-time homebuyer—someone who has not owned a principal residence for the prior three years—you can claim a credit of up to $8,000 for a home purchased after 2008 and before December 1, 2009. But the credit is phased out for high-income taxpayers.

Get the points. When you take a mortgage for a new home, you may pay "points" in exchange for a lower interest rate. Because the IRS considers points to be prepaid mortgage interest, you may be able to deduct them from your income for the year of the purchase. For instance, two points paid on a $500,000 mortgage—that is, 2% of the half-million—would give you a $10,000 deduction. However, if you finance the points along with the mortgage balance, you must deduct them over the life of the loan. Spread over the term of a 15-year mortgage, for example, that same $10,000 would mean a deduction of only $667 a year. ●

Financial Plans Are Meant To Be Revised

One great benefit of a financial plan is that it gives you a feeling of certainty. Designed to take into account wide-ranging scenarios, it seemingly should be able to shrug off an uptick in inflation, a bear-market stretch for stocks, or a spike in interest rates. Yet there are some circumstances —such as the recent once-in-several-decades plunge of the economy and financial markets—that even the most carefully constructed plan can't fully anticipate.

Such events, as well as possible changes in your own situation, mean that every financial plan, sooner or later, will have to be revised. Preparing a financial plan is a process, not a one-time event, and making smart, timely alterations is crucial.

Consider how that process works. A financial advisor takes stock of an investor's overall financial situation and asks questions about goals, comfort level with investment risks, and the timetable for using investment proceeds. Then, the advisor establishes a comprehensive plan designed to help achieve those objectives.

That requires several assumptions about how markets and the economy will behave. For example, an advisor might base a plan on a projected inflation rate of 3%, an 8% average annual return for stocks, and 4% yearly gains for bonds. Though some or all of those assumptions might miss the mark, the idea is that, taken together, they should be close enough to be useful. Yet even small inaccuracies, left uncorrected for 20 or 30 years, will leave a plan seriously out of whack.

Think of a ship setting out from New York for, say, Lisbon. The captain charts a course that should take the ship across the Atlantic to Portugal. But what if he makes a small miscalculation? Even if he's off only 1%, that could be a problem, and unexpected changes in winds and currents along the way are likely to

Markets Often Rebound Before The Economy

Given the extreme recent volatility of the stock market and the worsening economy, it's no wonder investors are on edge. Most have suffered significant setbacks during a recession that is already at record length and could continue for another year or more. It hardly seems like the right time to buy stocks. Yet while no one can know for sure when markets will turn around, that typically happens well before the economy gets going again.

The numbers don't lie. One recent study examined nine recessionary periods defined by the official arbiter, the National Bureau of Economic Research (NBER). According to NBER data charting recessions from 1953 through 2001, the stock market typically declines until sometime during the middle of the downturn and then begins to strengthen.

Starting at the low point of each recession and continuing until six months after its official end, the Standard & Poor's 500 stock index averaged a gain of 36%. That compares with an average decline of 21% for the S&P during a period starting six months before the official onset of each recession and ending at its low point. The average return for an entire recessionary period, including the six months before and after the actual recession, was 8%, and the average recession lasted 11 months.

The positive return is due to the role of the markets as a leading indicator, meaning that by the time the recession grips the economy, the markets are already looking forward to the eventual recovery. Similarly, much of the drop in the markets occurs in anticipation of the recession, many months before it is made official.

Throwing in the towel. Despite the hard data showing its benefits, buying stocks during the depths of a recession is bound to feel counterintuitive, particularly if you've spent months watching current holdings steadily lose value. Psychologically, it feels better to jump into the market after prices are already surging and getting out when they're falling. But it's exactly when most investors have finally given up on stocks—a situation market pros call capitulation—that the market is likely to bottom out and start climbing. Capitulation tends to happen when economic news is most dire.

Indications of things to come. In the end, of course, market movements are driven by supply and demand, and stocks won't improve this time just because they've risen under similar circumstances in the past. Still, history can provide important clues about where the economy and markets are likely to go, and economists consider the stock market a leading indicator—a preview of what may be to come for the economy.

Other *lagging* economic indicators reflect what has already occurred. For example, a higher unemployment rate typically develops because the economy is struggling; when demand for goods and services slackens, companies often respond by reducing their payrolls. Similarly, inflation may keep rising for months after upward pressure on prices, reflecting an economy at its peak, has already largely dissipated.

Stock prices, in contrast, are based on what investors consider to be a company's prospects. When the economy is at its worst, the road ahead may begin to seem comparatively bright, and company earnings could start to rebound even while current statistics continue to paint a gloomy picture. And when investors finally stop selling and start buying, rising demand for stocks will push up prices.

Chances are that this time, as in the past, the stock market will strengthen well before the economy and point the way forward for investors. But keep in mind that the sample size of this study is very small; only nine recessions occurred between 1953 and 2001. Also, the current economic crisis is largely viewed as the worst since the Great Depression, so the rebound may take longer than past recessions.

As always, it's crucial to stick with a long-term investment plan that reflects your goals, timetable, and risk tolerance. We are closely following developments in the economy and investment markets and would be happy to discuss whether any adjustments to your portfolio might be in order. ●

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make things worse. If he sticks to his original bearings, he could end up in Africa—or Ireland.

But that won't happen, because every good sailor understands the need for minor but constant course corrections. And a financial plan requires similar adjustments.

Look at the predictions of economists, market forecasters, or the government, and you'll see that no estimate extending more than a year or two into the future will be even close. So a financial plan written to predict the feasibility of a retirement 30 years away won't—and can't—be accurate. But it can establish a starting point. Reaching your goals requires frequent adjustments to compensate for the winds and currents you meet along the way.

Once you understand that basic certainty, you can prepare by discussing how, and under what circumstances, your plan will need to be altered. We would be happy to review your plan with you to make sure it continues to move you toward your long-term goals. ●

Reassess Your Finances

(Continued from page 1)

and an annual review can help you keep up with changing family circumstances, take advantage of ever-shifting tax laws, and avoid potentially disastrous mistakes such as language that might shortchange your spouse by sending too much of your wealth into a credit shelter trust.

Name a guardian for your children. If you've held off because you hate to think of someone else raising your kids, consider this: If you haven't designated a guardian to take over if you die while your children are minors, the state will pick someone for you. Make sure your choice is up for the job and understands what you want for your pride and joy.

Investigate long-term care insurance. Health costs continue to spiral upward, and the already high price of a nursing home stay could be astronomical by the time you need care, quickly depleting your retirement nest egg. Look into the costs and coverage options of a long-term care policy.

Make sure your insurance matches your needs. The wealthy often have unintended gaps in property and casualty coverage with inadequate insurance for multiple homes, art collections, and special liabilities. Review your coverage with an insurance expert, and consider whether you need an umbrella policy to protect you from punishing court judgments.

Also, make sure your jewelry is protected for its replacement value.

Be sure your heirs are properly designated. Life changes. Divorce, death, and family squabbles happen. Sometimes people simply forget to change their beneficiaries on IRAs or the title on real estate and other major assets. It's not uncommon for former spouses to inherit IRAs or for insurance proceeds to go to the wrong people. Review your beneficiaries for all your outstanding IRAs, retirement plans, insurance policies, and other assets. ●

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