ACA
alliance of cambridge advisors
Sharing wisdom. Growing wealth.
Transforming lives.

Financial *focus*

Spring Issue - 2014

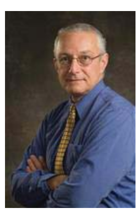
Letter from the Editor

Planning for your financial future starts today. The team behind *Financial Focus* selected the articles for the spring issue based on a forward-focused perspective. Robert Reed gives your records a spring cleaning in "Keep or Toss," Cordi Powell shares about the importance of L-O-V-E when preparing for a couple's financial future in "Lucky You," while Judy McNary helps prepare parents for their high school student's next chapter. The Financial Focus, published by the Alliance of Cambridge Advisors (ACA), also features the recently revised Five Fundamentals of Fiscal Fitness. You bring more to the table than what is housed in your portfolio. With your advisor's guidance, find out what you are truly worth. - JJ Knight, Managing Editor

Keep or Toss?

We are buried in ever-mounting piles of paper, and we are afraid to dig our way out. Just as we are about to toss something, that nagging voice in our head whispers, "Careful! It might be important."

Relax. Most of it isn't important and if it is, there is probably a copy of it somewhere that you can get. Throwing away documents you might need later is bad. But just as bad is keeping so much stuff that you have no idea what you have or where it is.



Robert Roy Reed, CFP®
PartnershipFinancial.com

A NOTE ON STORAGE

Your important papers deserve a fireproof box. For very important documents, consider renting a safety deposit box. Finally, a paper shredder is a good investment for destroying documents containing your name and important numbers.

Now that you have a place to keep your records, you must decide what to keep and what to toss (and when). This list is a general guideline

KEEP FOREVER

- Auto and driver's license
- Birth and death certificates
- Home improvement receipts
- Home purchase or refinance
- Insurance policies (current)
- IRA contributions (nondeductible)
- Legal documents (in force)
- Marriage certificate (even if divorced)
- Social Security and Medicare cards
- Military discharge papers
- Passport

Even if you don't drive any more, keep your driver's license as an ID. Keep your car title for as long as you own the car. Keep receipts for permanent home improvements such as a room addition. Keep home purchase or refinance records until you sell your home. Keep the original policy and latest statements for life, home, auto, umbrella, and any other insurance still in force.

Keep a record of nondeductible IRA contributions to show the IRS you already paid taxes on the money, and therefore, do not need to pay tax on it again upon withdrawal. In force legal documents include wills, trusts, financial and healthcare powers of attorney, living wills, real estate deeds, and divorce papers. It is a good idea to keep copies with your attorney or a relative, and leave a record where the copies are. If any documents are no longer in force, they can be tossed.

KEEP LESS THAN FOREVER

If you don't keep it forever, then you must periodically weed your files.

Bills
Keep bills for major purchases—cars, furniture, computers, and so on—to show proof of their value in case of loss or damage. I staple mine inside the instruction

Contunued on Page 3

In this Issue:

Ask Your Advisor

Choosing a financial planner who meets your needs and whose philosophies align with your own is crucial to the success of your overall financial plan. If you or a friend is considering a financial advisor, here are a few questions to help you vet a prospective planner.

1. What is your educational background?
2. What are your financial planning credentials/designations/affiliations?
3. How long have you been a financial planner?
4. Have you ever been cited for disciplinary reasons?
5. Will you or an associate be handling my financial planning?
6. Will I be working with a fiduciary? Could you explain what a fiduciary means to you?
7. How are you compensated?
8. What services do you provide? I want to make sure your areas of expertise match my needs.
9. Is part of your "value add" beating the market?
10. How do you provide your services? Do you provide implementation, recommendation, ongoing advice, and/or written analysis?

Visit acaplanners.org, and click Find an Advisor to help find an advisor in your area.

Resources for Parents of College Students

In Norway, they are called curling parents, carefully smoothing the littlest bits of snow and ice out of the way for their offspring. In the United States, we call them helicopter parents, diligently hovering just overhead to maintain an unobstructed bird's eye view of everything involving their children. In both countries, these terms have a negative, though humorous, connotation. No one wants to be labeled a helicopter parent. But when your children are away at college, there are questions you have and information you need. Some college students do a terrific job filling their parents in on things like the dates for Parents' Weekend or when housing deposits are due, but others don't. This article provides suggestions and resources for parents of college students, giving you the information you need without hovering.

Judy McNary, CFP®
@JudyMcNary

University Parent - www.UniversityParent.com

UniversityParent got its start as a senior project created by a student who was trying to figure out where her parents should stay and what they should do when they came to visit for Parents' Weekend. Over the past ten years, UniversityParent has become the main search engine parent resources. UniversityParent has online and print parent guides for more than 350 colleges and universities. Guides include everything from school calendars, key events, campus resources, town maps, and discounts for lodging and meals. The guides include community information for services such as dentists, moving and storage, or banking.

In addition to the university guides, UP has extensive resources for parents that cover everything from academic success and career planning, to health and safety. These resources also include ways to reduce college costs. Biweekly e-newsletters contain useful tips, and UP hosts an active Facebook group where parents exchange information with each other.

College Parents of America - www.CollegeParents.org

College Parents of America (CPA) was founded in 1997. Its mission is "to assist families in the successful preparation, transition, adjustment, and completion through college." It is an advocacy group, research organization, and parent resource. CPA offers memberships for $199 per year, which includes discounts on insurance and information on programs for saving on college expenses. The site also has a wealth of free information as well. The Parent Handbook for Student Success is $9.99, but accessible for free as a PDF. It offers terrific suggestions for helping students transition successfully to college, how to identify warning signs for students who are in trouble, and how to keep college costs down. There is also a great collection of cartoons that are worth checking out.

Your Student's School Parent Resource Site –

Universities know that informed parents are happy parents, and nearly every school has a dedicated set of resources for the parents to stay up-to-date. One way to do this is for the parents to sign up for the email and print newsletters from the student's school; these contain timely updates on campus happenings on a wide range of topics. Staying informed also keeps you updated on scholarship opportunities.

Unfortunately, even though parents might be footing the bill for school, they are not entitled to see their student's grades. You still need to get that useful piece of information from them directly.

These resources will provide helpful information for you to succeed in your new role as the parent of a university student. If your student is involved in a sports team or club, fraternity or sorority, there are additional resources available to you. Being involved and informed doesn't make you a helicopter parent. By taking the time to understand your student's university and to learn about the campus, events, and the neighboring town, you can learn how to stay connected to your student in healthy, constructive ways as he or she transitions into adulthood.

Contuned from Page 1

manual. For all other bills, toss once the payment has cleared or the refund period expires.

Credit card receipts and statements

Keep your receipts until your monthly statement arrives. If it is correct, toss the receipt. Keep a receipt if you are disputing the bill. Keep statements containing tax-related items with the tax return.

Investment statements

These break down into three types: (1) bank statements, (2) mutual fund and retirement/savings plan statements and, (3) brokerage statements.

- *Bank statements:* There is little reason to keep a bank statement or a cancelled check unless it involves your tax records. If someone disputes receiving payment from you, you can always get a copy of the check from the bank.
- *Mutual Fund statements*: Keep your quarterly statements until you receive your annual summary, then toss quarterlies. If everything is OK, toss the quarterlies.
- *Brokerage statements:* Most brokerage houses send out annual summaries that recap the year's activity. If so, keep the annual statement and toss the monthly statements. But be sure to check because you need a record of how much you paid for your investments (the basis).

Tax documents

Keep a copy of your returns and all attachments, receipts, and other documents that you used to prepare the return. After three years, toss the supporting documents but keep the return forever.

Lucky You, You Found Love

With all the statistics on high divorce rates in America, sometimes it's good to pause and look at the benefits of marriage. Getting married adds stability to life. Your spouse is an accountability partner, sounding board and cheerleader for your dreams. When you add the benefits bestowed by the government, couples are able to reach goals and build wealth more rapidly than single individuals.

Here are a few examples of benefits to being married:

Cordi Powell, CFP®
@FavoredFP

1. Health coverage can be provided through one or both spouses' jobs. With recent government policy changes, this can be a huge savings. Couples can choose the employer policy that provides the best coverage for the least cost.

2. Home and auto insurance policies are frequently cheaper because married couples are viewed as more stable.

3. Larger pools of assets allow for more diversification. You have leeway to explore investments you might not consider with smaller accounts.

Just because you say "I do" doesn't mean these benefits magically appear in your financial life. But couples that recognize the potential and commit to the work are very successful.

Steve and Liz came to me for help with preparing for their lives together. These newlyweds were in their late 30s and this was the first marriage for both of them. During our "getting acquainted" meeting, we uncovered the true reasons Steve and Liz were sitting in my office. Growing up, Liz's parents argued about money and then presented the "country club façade" to family and friends. Steve had a stay-at-home mother and a father who made about $250,000 per year—until he lost his job. Steve could vividly remember the contrast between abundance and scarcity during his childhood. Though both motivated by their upbringing, they discovered that they had very different reasons for seeking my services. Liz wanted to avoid arguments over finances as well as having integrity between their home and public lives; Steve wanted to provide a stable lifestyle for his family.

After this brief meeting, these newlyweds were prepared to tackle the two main hurdles couples face when trying to reach their goals:

The first hurdle is dedication. Couples must make obtaining financial unity a priority. It is so easy to get caught up in the busyness of life that you continually put off planning for your marriage, family, and future. When you engage the services of a holistic financial planner, you commit to structured, effective time spent designing a plan to accomplish your dreams.

The second hurdle is communication. Effective communication is key when discussing finances. Use LOVE as an acronym to create this dialogue.

A holistic financial planner provides dedicated time to discuss your finances, as well as an impartial party to facilitate communication between you and your spouse. The simple act of effectively communicating and creating a financial plan will have a profound impact on the dreams you accomplish and the wealth you build together. The planner provides accountability and helps you adjust your plans when "life happens." So get started talking! Find a holistic advisor that you can relate to at www.acaplanners.org.

Here's to happily ever after!

Read more from Cordi Powell on her blog at http://favoredfp.com/blog.

L.O.V.E.

L – Listen to what your partner is saying. We've all heard the saying, "God gave us two ears and one mouth, so we should listen more than we speak." But listening is more than pausing while the other person speaks as you formulate your rebuttal. Listening involves focusing your attention on what is being said, and ensuring you have a proper understanding before you respond.

O- Open up about the experiences that have formed your view of money. We unconsciously develop our spender or saver tendencies from financial behaviors modeled during childhood. For example, if you grew up watching your parents live from paycheck to paycheck, you may be a saver and hesitant to spend as an adult.

V – View finances from your partner's perspective. When you try to understand the experiences that have shaped your spouse's view on money, it's is easier to come up with a compromise that will make you both happy.

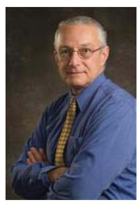
E – Embrace your differences. There's a reason you two were attracted to each other. We tend to marry our financial opposites. If you were raised to spend it all because you can't take it with you, you will probably marry a saver. Marrying your financial opposite makes it even more important to proactively talk about money.

How Much Cash?

Make Plan to Weather Dire and Ordinary Emergencies

Cash is trash! Cash is king!

Emotion pulls you in wildly different directions when you try to figure how much cash you need. We are not talking about a checking account where your wages are deposited and bills paid. We are talking about how much more cash you need—just in case.



Robert Roy Reed, CFP®
PartnershipFinancial.com

Just in case of what? Well, what if your furnace suddenly gives up? What if you lose your job? We know the unexpected happens and if you are not prepared, it can upset your financial stability.

There are two categories of events you must prepare for: ordinary emergencies and dire emergencies.

Ordinary Emergencies are just irritating. It is being told your car's transmission needs a $1,500 repair or that your house needs a new roof. Then there is the ever popular, "I forgot the car insurance is due this month!"

How much cash you need for ordinary emergencies depends on your income stability. If you have a regular wage, you need to set aside 10 percent of your annual income. If you make $60,000 a year, you need $6,000 tucked away. If you must use it, that's fine. It is there to be used in an emergency, but replenish it as soon as possible.

If you have your own business or if your income is variable, then you need to set aside 20 percent of your annual income. If you are retired, you should have 30 percent of your annual living expenses in savings.

Dire Emergencies bring normal life to a halt. This is an unexpected job loss or your doctor saying, "I'm afraid it is serious." In the most important sense, a dire emergency is not about money. It is about supporting a loved one through a difficult illness. It is about having stability as you search for a job or train for a new career. The only certainty in a dire emergency is that you will have less income—often a lot less. Your dire emergency fund must be enough to help you ride out the situation or adapt to a new normal.

We recommend putting aside 20 percent of your mortgage balance or twice your ordinary emergency fund (whichever is larger). Typically, this will cover your housing expenses for two years. This reserve insures you are not distracted by worries of losing your house as you confront the more important human dimensions of the situation.

Your dire emergency fund is apt to be a large number, and people often cannot see themselves putting aside that much cash. The good news is that you don't have to do it all at once. Furthermore, retirement accounts are a good location for this money. Then it is there when you need it and if you don't (hurray!), it is available for retirement.

The critical thing to remember about ordinary and dire emergencies is that this money is not invested for growth. It is kept to smooth out the bumps we all encounter in life.

Five Fundamentals of Financial Fitness

Thomas Jefferson in the Declaration of Independence refers to inalienable rights. I'm no scholar, but what I think he means by inalienable is that they are absolute. I see and use the Five Fundamentals of Financial Fitness as absolute financial truths.

It does not matter if you are single, a young couple, approaching retirement, or are in the conservation phase of your financial lifecycle. These five truths are ways to mark progress and to celebrate accomplishments, all while growing your net worth.

1. Pay Yourself First—Savings and Retirement
2. Have Sufficient Cash
3. Pay Off All Credit Cards and Consumer Debt
4. Own the Right-Sized Home
5. Invest in Your Career

ACA planners emphasize behaviors, not returns. We believe in comprehensive planning and that the market will take care of itself. In each upcoming issue of the *Financial Focus*, a Fundamental of Fiscal Fitness will be highlighted. Robert Reed tackles the fundamental regarding sufficient liquidity, and how to save for ordinary and dire emergencies in this quarter's issue.

-John Discepoli , CPA/PFS
Discepoli.com