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THE FINANCIAL NEWSLETTER OF FINARC, LLC

Liam Timmons Promoted to Associate Analyst

We are very pleased to announce that Liam Timmons has been promoted to Associate Analyst. Liam joined FinArc in 2006 from Deutsche Asset Management, as a Portfolio Manager's Assistant. He will now be focusing on securities research including stocks in the beverage, energy, and utility industries. Liam also analyzes mutual funds and serves as our trader.

Liam is an MBA candidate at the Wallace Carroll School of Management at Boston College. He has a BA in Political Science from Boston College. He has worked in the investment industry for 9 years and holds the Series 65 license.

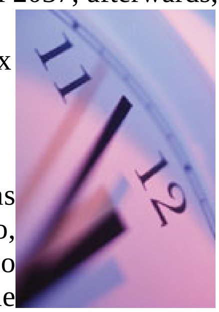
Matthew Slaney Designated as Chartered Financial Analyst

Matthew C. Slaney has passed the Level III exam of the Chartered Financial Analyst program and now qualifies for the CFA designation. This rigorous program is administered by CFA Institute, a leading professional organization within the investment community. The designation confirms a member's proficiency in multiple areas of finance and investing.

Slaney earned his MBA from the Wallace E. Carroll School of Management at Boston College and earned his BS in Business Administration from Northeastern University. He joined FinArc in 1999 from Colonial Management Associates and was promoted multiple times to reach his current position of Portfolio Manager. He has been a Principal of the firm since 2004.

Social Security: What Does the Future Hold?

Each year, the Social Security and Medicare trustees issue a report on the financial health of these two programs. The news hasn't been good. According to this year's report, in 2016, Social Security will begin paying out more money than it takes in, and will be able to pay promised benefits only until 2037; afterwards, the trust fund reserves will be exhausted and payroll tax income will be enough to finance only 76% of scheduled benefits until 2083.



Social Security reform has been a political hot potato, but that may be about to change. The decline of the financial markets has led to renewed focus on the importance of Social Security income to retirees, and on the need to address the growing burden that Social Security is placing on the federal budget.

Proposals to stabilize Social Security

Despite fears that Social Security will not be around for future generations, there have been no calls to eliminate Social Security, and the focus is on making the program sustainable. In fact, President Obama has repeatedly expressed his commitment to preserving Social Security. To help accomplish this, he favors a Social Security payroll tax on earnings above $250,000 (currently no Social Security payroll tax is assessed on earnings above a certain maximum, $106,800 in 2009). Many other potential solutions have also been suggested. For example, the Social Security Solvency Act of 2009, introduced in the Senate in February, proposes accelerating by five years the gradual increase in full retirement age to 67, and modifying the benefit calculation to reduce benefit growth. This year's trustees report mentions immediately increasing the payroll tax or reducing benefits as additional options.

The Near Future

The Congressional Budget Office (CBO) is projecting that for the first time since 1975, when cost-of-living adjustments (COLA) were first payable, Social Security beneficiaries will not receive an automatic increase next year (or for 2011), due to low inflation. According to the CBO, the absence of COLA will also affect the maximum earnings that are taxable for Social Security, because under the Social Security Act, the earnings maximum can only increase when COLA is payable. Therefore, the CBO is projecting that this year's earnings base of $106,800 will remain the same for the next two years.

Medicare beneficiaries will be affected too. By law, for individuals who have their Medicare Part B premiums withheld from their Social Security checks, premiums cannot rise more than COLA increases for Social Security. Consequently, no annual COLA means that standard Medicare premiums will remain at their current level of $96.40 per month for approximately 75% of Medicare beneficiaries. However, certain beneficiaries (those who do not have their premiums deducted directly from Social Security and those with higher incomes who pay higher income-related premiums) do not have this protection, and will see their premiums rise, perhaps substantially.

Getting to Yes Despite Differences

In a perfect world, both halves of a couple share the same investment goals and agree on the best way to try to reach them. It doesn't always work that way, though. One spouse may be risk-averse, while the other may be comfortable investing more aggressively. How can you bridge that gap?

Define your goals

Making good investment decisions is difficult if you don't know what you're investing for. Making sure you're on the same page--or at least reading from the same book--when it comes to financial goal-setting is the first step toward dealing jointly with investments.

Make sure the game plan is clear

Making sure both spouses know how and (equally important) why their savings are invested in a certain way can help minimize marital blowback if investment choices don't work out as anticipated. Second-guessing rarely improves any relationship; making sure both partners understand from the beginning why an investment was chosen, as well as its risks and potential rewards, may help moderate the impulse to say "I told you so" later.

If you're the more aggressive investor …

Listen respectfully to your spouse's concerns. You may need to provide additional information to increase his or her comfort level, but you won't know what to supply if you automatically dismiss any objections.

If you're enthusiastic about an investment, concealing potential pitfalls could make future joint decisions more difficult if your credibility suffers because of a loss. A more cautious spouse may help you remember to assess the risks involved.

Remember that you can make changes in your portfolio gradually; you don't have to become more aggressive all at once. And if you’re an impulsive investor, try not to act until you can consult your partner--or be prepared to face the consequences.

If you're the more conservative investor …

If you're unfamiliar with a specific investment, research it. Though past performance is no guarantee of future returns, understanding how an investment typically has behaved in the past or how it compares to other investment possibilities could give you a better perspective on why your spouse is interested in it.

Consider whether there are investments that are less aggressive than what your spouse is proposing but that still push you out of your comfort zone and might represent a compromise position. For example, if you don't want to invest a large amount in a single stock, a mutual fund that invests in that sector might be a way to compromise. (Before investing in a mutual fund, carefully consider its investment objective, risks, charges, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.)

What if you still can't agree?

You could consider investing a certain percentage of your combined resources aggressively, an equal percentage conservatively, and a third percentage in a middle-ground choice. This would give each partner equal input and control of the decision-making process, even if one has a larger balance in his or her individual account.

Another approach is to use separate asset allocations to balance competing interests. If both spouses have workplace retirement plans, the risk-taker could invest the largest portion of his or her plan in an aggressive choice and put a smaller portion in an option with which a spouse is comfortable. The conservative partner would invest the bulk of his or her money in a relatively conservative choice and put a smaller piece in a more aggressive selection on which you both agree.

Or you could divide responsibility for specific goals. The more conservative half could be responsible for the money that's being saved for a house down payment in five years. The other partner could take charge of longer-term goals that may benefit from taking greater risk in pursuit of potentially higher returns. You also could consider setting a predetermined limit on how much the risk-taker can put into riskier investments.

Finally, a neutral third party with some expertise and a dispassionate view of the situation may be able to help work through differences.

More Drops in the Higher Education Bucket

The world of higher education has received some attention in Washington this year. The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law by President Obama in February. This legislation, along with the President's proposed budget for FY 2010, contains several provisions related to higher education.

Hope credit

The Hope credit is a tax credit for college tuition and related expenses. ARRA changed the Hope credit significantly. For 2009 and 2010, the Hope credit is renamed the American Opportunity tax credit and can be worth $2,500 per student per year, up from $1,800. (President Obama's FY 2010 budget blueprint proposes making the credit permanent.) In addition, the credit now applies to the first four years of a student's post-secondary education, provided he or she attends at least half-time (previously, the credit applied only to the first two years of college). And the income limits for qualifying have been increased:

- A full credit is available to single filers with a modified adjusted gross income (MAGI) below $80,000 (previously $50,000) and joint filers with a MAGI below $160,000 (previously $100,000)
- A partial credit is available to single filers with a MAGI between $80,000 and $90,000 (previously $50,000 and $60,000) and joint filers with a MAGI between $160,000 and $180,000 (previously $100,000 and $120,000)

Other points to note about the new credit:

- The credit may be claimed against an individual's alternative minimum tax liability
- Up to 40% of an individual's allowable credit may be refundable
- For purposes of the credit, the definition of "qualified tuition and related expenses" is expanded to include course materials

By increasing both the amount of the credit and the income limits to qualify for it, and by expanding the availability of the credit to all four years of college, the federal government has put the focus on helping traditional college students pay for college. (Congress did not increase the amount of the Lifetime Learning credit, which is geared more toward occasional courses taken by students who are enrolled in school less than full-time.)

Qualified expenses and 529 plans

ARRA has expanded the definition of "qualified higher education expenses" for 529 plans to include expenses paid or incurred in 2009 or 2010 for computer technology, equipment, and Internet access, provided they are used by the 529 plan beneficiary and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution. This means you can take a tax-free withdrawal from your 529 plan to pay for these items. (Previously, a computer had to be required by the college in order to be considered a qualified education expense.)

This carve out for computer-related expenses is similar to the existing provision for K-12 computer expenses currently allowed by Coverdell education savings accounts.

Pell Grants

ARRA increased the maximum Pell Grant to $5,350 for 2009/2010 and to $5,550 for 2010/2011. The FY 2010 budget proposes making Pell Grant's a mandatory spending program with automatic increases tied to the CPI..

Financial aid

President Obama wants to simplify the federal financial aid application process by eliminating the current FAFSA application and allowing families to apply by simply checking a box on their tax form, authorizing their tax information to be used. Stay tuned to see whether this major time-saving objective will happen in 2010.

Fall 2009

Volume 18, Issue 1

NEWS

Catherine Friend White was interviewed at length in the September 7 issue of The Wall Street Transcript. In the interview, she details FinArc's investment philosophy, particularly as it relates to value investing and socially responsible investing. Ms. White highlights FinArc's disciplined, rigorous investment selection process, describing the critical financial scrutiny under which all investments are placed.

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Catherine Friend White was also interviewed in the November 1, 2009 issue of Bottom Line/Personal magazine. Catherine discusses the principals behind socially responsible investing, and FinArc's methodology for aligning clients' investment portfolios with their specific values .

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