



# Milne Financial Planning, Inc.

## d/b/a Financial Guidance Associates

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### Summer 2002

I trust that 2002 is bringing you good health and happiness. January 2002 marks the sixth anniversary of Milne Financial Planning. I thank you for your support and referrals throughout the years.

#### REPLY CARD

The enclosed reply card is for your benefit. If you put your name in the return address area on the front you can:

1. Request information on our services,
2. Request an appointment, or
3. Be removed from our mailing list.

We would like to have your e-mail address. Use the "comment" box on the card.

#### SMART MONEY AND BUSINESS WEEK

In the November, 2001 issue of **Smart Money**, I was quoted in the article "Is Anything Safe?" by Gerri Willis. The article discussed the *best* places to invest for the short-term and beyond. I commented on how some of my clients were eager to invest as the market was reaching new highs, but now that the market was declining, they were holding on to their money instead of investing. (See the Client Profile.)

In the January 21, 2002 issue of **Business Week**, I was quoted in the article "Sometimes the Best Game Plan is the Easiest" by Peter Coy. The article discussed dollar-cost averaging and how it lets you forget about timing the market. I commented on my strategy to invest slowly with new money such as an inheritance or divorce settlement for clients that have never invested in the market.

#### CLIENT – New savings and the declining market

Joe and Mary said the down turn in the market was unsettling and that they had been putting all new savings into a money market account (about \$50,000 per year). They would continue to do this until the

market bottomed out. **Observation** - I pointed out "You were happy to invest when the market was going up. Yet, now that the market has fallen and is a better value (lower prices) you are unwilling to invest." This is an example of the typical investor who attempts market timing (buy low, sell high) but in reality by the time they get in and then get out of the market, the results are just the opposite.

**Recommendation** – I recommended that this client continue investing in their diversified portfolio.

#### COLLEGE SAVINGS PLANS, aka 529 Plans

A 529 plan is a state sponsored college savings plan. New for 2002 is that all earnings will be tax exempt. **Yes, that's right, tax-free!** Though you can use any state's plan, you'll want to consider Vermont's as it is federal *and* state tax exempt. Vermont's plan is managed by TIAA-CREF and is called Vermont Higher Education Investment Plan (VHEIP). To learn more about Vermont's plan visit [www.vsac.org](http://www.vsac.org).

#### Benefits of the VHEIP:

- Federal *and* state tax exempt.
- No enrollment or annual fee.
- A reasonable asset-based fee of .80%.
- Qualified withdrawals include:
  - Tuition, mandatory fees, books, supplies, equipment, and room and board.
- Maximum account balance is \$240,100.
- Minimum contribution is \$25 monthly.
- Money not used for one child can be used for another child, including first cousins.
- If you are trying to reduce your estate for estate tax purposes, this is the only vehicle that allows you to remove an asset from your estate and still retain control of the asset.

#### The VHEIP has three investment choices:

1. Interest Income Option – An interest bearing account with a goal to provide an investment return in excess of the 91-day Treasury Bill. This is the "safest" option.

2. Managed Allocation Option – Money is invested in portfolios based on your child’s birth year. As your child gets older, the portfolio allocation is shifted and becomes more conservative.
3. 100% Equity Option – Money is invested in a portfolio of U.S. and international stock mutual funds. This is the “riskiest” option.

What are the disadvantages?

- Once you chose the investment option, you no longer control how the money is invested.
- If you are likely to qualify for financial aid, this money will be considered in the calculation. How withdrawals will be treated for financial aid calculations is unclear and inconsistent. It is likely the earnings on the account will be included as part of the child’s income and the account balance will be considered a parent asset.
- If a grandparent sets up an account and remains the owner, the money may be considered for Medicaid eligibility for nursing home care.
- There is a 10% penalty on the earnings if you don’t use the money for college.

### SHOULD YOU BE INVESTING NOW?

The basic answer is yes, but first consider the following:

- Do you have sufficient cash available to cover known expenses for the next 3-5 years?
- Do you have a cash reserve to live on for 6 to 12 months if you had no income?
- How much of your portfolio is allocated to stocks and stock mutual funds? If it is over 65%, revisit your allocation strategy. If your stock allocation is over 80%, consider re-allocating the portfolio.
- Are all your stock and stock mutual funds concentrated in one sector such as, technology or health care, or in one style of investing (value or growth) or one size of company (large, mid or small cap)? If so, diversify your stock and stock mutual fund holdings to other sectors, sizes and styles.

It is important that you have enough cash to avoid having to withdraw money from the market when it is down and maintain a diversified portfolio.

### CLIENT PROFILE – “I’m losing money”

Christine was concerned that one of her two retirement accounts was losing money. She had two sizable accounts, one invested in a variety of mutual funds and the other invested in an annuity indexed to the S&P 500. It was the mutual fund account that lost money. **Question** – “Shouldn’t I purchase another annuity indexed to the S&P 500?” **The problem**– The main problem was my own bias. I do not like annuities as an investment, especially in a retirement account. My reasons include the high internal costs and that retirement accounts are already tax deferred. An annuity indexed to the S&P 500 provides a rate of interest pegged to the performance of the S&P 500. Since the interest paying annuity has a guaranteed rate, it can not lose value (even when the S&P declines). This is certainly appealing. However, some indexed annuities give you as little as 30% of any S&P 500 increases. **Recommendation** – Though the above issues are important, the main issue was to avoid concentrating 100% of Christine’s money in one type of investment. Christine kept the mutual fund portfolio.

### ADV FORM and PRIVACY STATEMENT

If you would like a current copy of the Form ADV or the Privacy Statement for Milne Financial Planning, Inc., you may call, e-mail, write or visit our website.

### RETIREMENT PLAN INCREASES

You can increase your contributions! The maximum contributions for 2002 are:

|                          |          |
|--------------------------|----------|
| Traditional and Roth IRA | \$ 3,000 |
| 401k, 403b and 457 plans | \$11,000 |
| Simple Plan              | \$ 7,000 |

If you are 50 and over, you can contribute an additional \$500 to the IRAs and an additional \$1,000 to your 401k 403b or 457 plan.

### REFERRALS

I appreciate the past referrals. It is satisfying to be trusted with your friends, family members or business contacts. To learn more about our services, you can visit our website, [www.milnefeeonly.com](http://www.milnefeeonly.com) or give us a call. If you would like to add someone to our mailing list, e-mail us their name and address.