



Why You Need a Financial Advisor

After dismal portfolio returns during the “lost decade,” investors may be wondering why they are still paying their advisors’ fees. Until recently, the generally accepted (and expected) premise was that the advisor would deliver returns in excess of the market. But since many advisor-managed portfolios lost value with the market during the two major crises of the decade, many clients have begun to question the advisors’ role and their justification for receiving fees even during periods of poor performance.

An advisor’s value, however, may go beyond returns that beat the market. Of course, return is the first thing investors tend to think about, but there are other factors that influence the investing process and need to be carefully considered, as well. This is where an advisor can help you. Many investors do not align their portfolios with their risk tolerance; they overweigh in stocks expecting high returns and then can’t sleep at night when the market fluctuates. An

advisor can help manage your expectations and build a portfolio that’s best suited for your risk tolerance level.

Another area where an advisor’s expertise can be valuable is goal-oriented investment. Instead of accumulating all your savings in one place and investing them irrespective of a goal or timeline, an advisor can help you identify various investment goals (retirement, child’s college fund, income-oriented investing) and then reorganize your portfolio according to these goals.

In addition to risk/return management and goal-oriented investment, wealth preservation, tax management, and the prevention of rash decisions are some of the additional benefits you may gain from the client-advisor relationship. When you evaluate your advisor’s performance, think about how an advisor’s value may extend beyond returns that outperform the market.



Michael Harter
CPA/PFS, CFP®

info@rfmfinancialsolutions.com
989-772-1209
www.rfmfinancialsolutions.com

Is it spring yet?

Springtime in Michigan is always an exciting time and yes it was delayed this year, but now is the time to look forward to a new season.

We too are looking forward to spring and summer with plans of client meetings and catching up on your activities. The markets have been moving upward and now is a good time review your progress.

Thank you for your support and enjoy this time of the year.

U.S. Stocks and Bonds Before and After Taxes

Even though investors don't always realize it, taxes can have a dramatic effect on an investment portfolio, especially in today's relatively uncertain tax environment. The tax law enacted in December 2010 was only intended to last for two years, and new changes may be effected in 2013.

The image illustrates the hypothetical growth of inflation and a \$1 investment in stocks and bonds before and after taxes since 1926. Over the long run, the adverse effect of taxes on investment returns becomes especially pronounced. Stocks are the only asset class depicted that provided any significant long-term growth. After considering taxes, government bonds barely outperformed inflation over this time period. In a world with taxes, focusing on fixed-income assets alone has not provided investors with a substantial increase in wealth. If you desire substantial after-tax growth, you may want to consider a larger allocation to stocks. Another alternative, if you are able, is to consider tax-deferred investment vehicles.

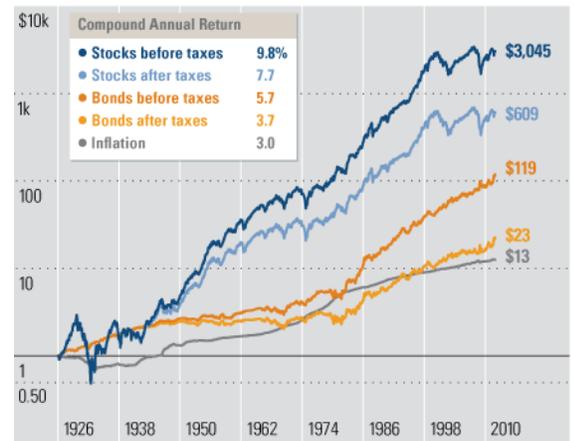
Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed. Stocks have been more volatile than the other asset classes.

Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning \$110,000 in 2010 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No capital gains taxes on municipal bonds are assumed. No state income taxes are included.

Stocks in this example are represented by the Standard & Poor's 90 index from 1926 through February 1957 and the S&P 500® index thereafter, which is an unmanaged group of securities and considered to be

representative of the U.S. stock market in general. Government bonds are represented by the 20-year U.S. government bond, and inflation by the Consumer Price Index. An investment cannot be made directly in an index.

U.S. Stocks and Bonds Before and After Taxes: 1926–2011



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Get Your Estate Plan in Gear

Estate planning laws have undergone swift changes over the past several years and may change again in the years ahead. If you're creating or updating an estate plan, it's essential that you seek the advice of an attorney who's well versed in this area. Before you hire an estate-planning attorney to draft or update your estate plan, it's important to understand your role in the estate-planning process.

Find a qualified attorney: Because your estate plan will likely need to be updated as the years go by and your personal circumstances change, it makes sense to find an attorney who practices in the community where you live. This can help you meet with him/her on an ongoing basis.

Take stock of your assets: Before you meet with your attorney, spend some time enumerating your assets and their value: your investment accounts, life insurance, personal assets such as your home, and your share of any businesses that you own. Also gather current information about any debts outstanding. Your estate-planning attorney is likely to provide you with a worksheet to document your assets and liabilities, but it's helpful to collect this information in advance.

Identify key individuals: Another important aspect of estate planning is identifying the individuals you trust to ensure that your wishes are carried out once you're gone.

Executor: A person who gathers all of your assets and makes sure that they are distributed as spelled out in your will.

Durable (Financial) Power of Attorney: A person you entrust with making financial decisions on your behalf if you should become disabled and unable to manage your own financial affairs.

Power of Attorney for Health Care: A person you entrust with making health-care decisions on your behalf if you are disabled and unable to make them on your own.

Guardian: A person who would look after your

children if you and your spouse were to die when your children are minors.

Know the key documents you need: When you meet with your estate-planning attorney, he or she will make recommendations about your estate plan. At a minimum, you should ask your attorney to draft the following documents.

Last Will and Testament: A legal document that tells everyone, including your heirs, how you would like your assets distributed after you're gone.

Living Will: A document that tells your loved ones and your health-care providers how you would like to be cared for if you should become terminally ill; usually includes details about your views toward life-support equipment.

Durable (Financial) Power of Attorney: A document that gives an individual the power to make financial decisions and execute financial transactions on your behalf if you are unable to do so.

Medical Power of Attorney: A document that gives an individual the power to make health-care decisions on your behalf if you are unable to do so.

Manage your documents: Once your estate-planning documents are drafted, destroy any older versions of them. Notify your executor of the whereabouts of your estate-planning documents, and provide copies of the relevant documents to your executor, powers of attorney, and the guardian for your children.

Plan to keep your plan current: Last but not least, plan to keep your estate plan current. One of the biggest estate-planning pitfalls is drafting an estate plan but not keeping it up to date. Changes may include change in marital status, assets, financial status, death or ill health of your beneficiaries, executor, power of attorneys, or guardian.

Don't Pay Tax Twice

Reinvestment can be a crucial component of the wealth accumulation process, as the reinvested amount compounds and grows over time. Yet if you are reinvesting dividends and capital gains (“distributions”) in funds you hold in your taxable account, it can be important to ensure that you're not paying more tax than necessary. You pay tax on those distributions in the year in which you receive them. But if you don't keep good records, you could end up paying tax on those distributions again when you sell. For example, say you bought 1,000 shares of a fund for your taxable account at the end of 2011; you paid \$18 per share for a total of \$18,000. In 2012, with the share price still at \$18, the fund made a dividend distribution of \$0.50 per share, or \$500 for your 1,000 shares. You'd owe tax on the \$500 on your 2012 taxes, whether you reinvested the money or took the cash in hand. (The taxes would be deferred if you held the fund in a tax-sheltered account). If you reinvested the money in the fund, you'd now own 1,027.78 shares:

your original 1,000 plus the nearly 28 additional shares that you were able to buy (at \$18) with the \$500 dividend distribution. If you sell now, with the fund's net asset value at \$20, you'd think you'd owe taxes on your \$2,555.56 profit (\$20,555.56 minus \$18,000), right? Wrong. You would only owe taxes on \$2,055.56 (\$20,555.56 minus \$18,000 minus \$500). Otherwise, the \$500 dividends would be taxed twice.

Investments are subject to risk of principal and risk of loss. Dividends are not guaranteed. Retirement accounts are tax-deferred vehicles designed for retirement savings. Any withdrawals of earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. This should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances.

©2013 Morningstar, Inc. All Rights Reserved. The information contained herein (1) is intended solely for informational purposes; (2) is proprietary to Morningstar and/or the content providers; (3) is not warranted to be accurate, complete, or timely; and (4) does not constitute investment advice of any kind. Neither Morningstar nor the content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. "Morningstar" and the Morningstar logo are registered trademarks of Morningstar, Inc. Morningstar Market Commentary originally published by Robert Johnson, CFA, Director of Economic Analysis with Morningstar and has been modified for Morningstar Newsletter Builder.



Michael Harter
CPA/PFS, CFP®

RFM Financial Solutions, LLC
805 N Brown St
Mt Pleasant, Michigan 48858

info@rfmfinancialsolutions.com
www.rfmfinancialsolutions.com

Tel: 989-772-1209
Fax: 989-772-5352