Our Two Cents

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eDelivery Saves Trees and Saves You Money!

Did you know that if you participate in Charles Schwab eDelivery program, you will receive discounted equity trade commissions? In the past, in order to receive a discount on equity trade commissions, your household assets has to be over $1 million, but that is no longer! Charles Schwab has recently reduced its electronic equity trade commission for those accounts who have enrolled in eDelivery and have household assets less than $1 million, to $8.95 per trade for all electronic trades in stocks and third-party exchange-traded funds. If you choose not to participate, trade commissions will continue to be $19.95 per stock and third-party exchange-traded fund trades.

Electronic delivery provides fast, secure access to account documents, such as statements and trade confirmations. The benefits of going paperless are: increased level of security, convenient access, faster delivery, and lower electronic equity trade commissions.

You must participate in both the eStatements and eConfirmations. Why hassle with all the paper that Charles Schwab mails to you when it can all be easily accessed via the internet!

Give us a call if you would like us to forward you some brochures that explain the benefits of eDelivery and Schwab Alliance services. We do not think you would be disappointed in this offered service.

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Advisor Corner

First of all we at RFM Financial Solutions want to wish you all a healthy and prosperous New Year.

The new year is a good time to reflect and plan. Estate planning is one of those often overlooked areas of financial planning. It is very important to review your documents every couple years. There has been some recent changes to the estate tax laws that may impact your plans.

If we can assist you in bringing your plans up to date, please do not hesitate to contact us.

We look forward to seeing you soon!

Types of College Financial Aid

The costs of a college education have become increasingly unaffordable for the average American family, even before the 2008 economic crisis. A report published by the National Center for Public Policy and Higher Education found that published college tuition increased by 439% from 1982 to 2007 while median family income only rose by 147% during the same time period. The average middle class family has traditionally financed the costs of college through student loans. The weakened job market, however, has made the repayment of student loans more difficult.

Fortunately, there are many ways to get college financial aid. While we often associate financial aid with lower-income families, there are many opportunities for the average middle-income family to obtain the money needed to ease the burden of the rising costs of college.

Federal Grants: President Obama has made improving college graduation rates one of his top policy initiatives and as such, federal grants have accounted for 44% of the total grant money awarded to students in the 2009-10 school year, an increase from 34% the previous year. Federal grants are awarded to students that have not already earned a bachelor's degree. While the majority of federal grants are awarded to students with annual household incomes below $20,000, students with household incomes below $50,000 are eligible. To qualify for this grant, one has to fill out an application on the Free Application for Federal Student Aid website. The most important thing to note is that eligibility for federal grants is based on family income, and thus, it is important to avoid artificially inflating income through bad timing of capital gains and bonuses, especially in the two years before you register for FAFSA. Even if you are unsure of your child's eligibility for the federal grants, it is always useful to register for FAFSA because universities use that database to determine financial aid awards as well.

College Scholarships: Always contact your university's financial aid office to request information on any scholarships that it may offer. These scholarships are typically merit-based and will help to cover the costs of education that are not covered by federal grants. Private universities, with larger endowments than their public counterparts, traditionally offer more financial aid to students. The decline in state appropriations the past few years have also affected the amount of scholarships that public universities have been able to give out. However, one should balance the costs of attending a private university with a comparable in-state public university. At public four-year universities, the average cost per year (including room and board) is $16,140, compared with $36,993 for private four-year institutions.

Other sources of funding: There are many private organizations like Microsoft, the Gates Foundation, and Google that offer need-based merit scholarships to undergraduate students. Very often, there are stipulations on the field of study, with an emphasis on technical majors like computer science or engineering. Technically inclined students should look into applying for these scholarships because they tend to be more generous than federal grants. In addition, every university participates in the federal work-study program, which allows undergraduate and graduate students who have completed the FAFSA and are eligible for financial aid to work during the school year in both on- and off-campus jobs. Not only do these jobs help students pay for college, they also provide valuable work-related experience.

Source: Measuring Up 2008 The National Report Card on Higher Education, The National Center for Public Policy and Higher Education; Trends in Student Aid 2010, The College Board; Trends in College Pricing 2010, The College Board.

Staying in Style

Most financial professionals agree that the asset-allocation decision is one of the most important factors in determining both the risk and the return of an investment portfolio. Asset allocation is the process of combining asset classes such as stocks, bonds, and cash into a portfolio that will meet your goals. Taking this process a step further means selecting mutual funds to represent a certain segment or style for your overall portfolio (large stocks vs. small stocks, growth stocks vs. value stocks, etc.).

This can be a challenging task, and once the process is complete and the portfolio of mutual funds built, you'll need to consider something else: style drift. Style drift occurs when actively-managed mutual funds deviate from a particular investment style over time in an effort to potentially improve performance. While improved performance might not seem like a bad thing, a shift in style can be hazardous because it alters your risk exposure and return profile.

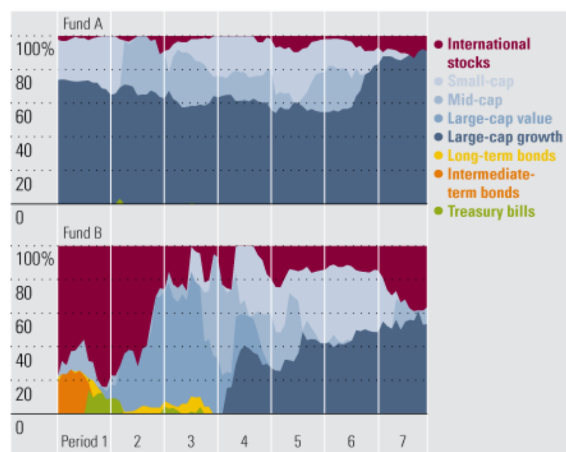
For example, let's say you held a large percentage of your portfolio in a large-cap stock fund. Now, at a certain point in time, this fund's manager got convinced that small stocks would benefit due to certain market conditions. Acting on this belief, he shifted the strategy of what was supposed to be a large-cap stock fund by buying an unusual amount of small stocks. This not only unnecessarily increased the risk of your overall portfolio, but also potentially set you up for large losses if small stocks were not going to behave the way this manager expected.

Style analysis is a technique used to understand investment style and identify the behavioral characteristics of a fund. It matches the returns of a fund to a mix of asset-class benchmarks that best describe the fund's behavior. This process can aid investors and advisors in the selection of funds to assemble a diversified portfolio.

The graph shows the rolling style analysis over time of two hypothetical mutual funds with the same stated objective. Although these two funds have the same objective, their style and consistency differ greatly. Look at international stocks, for example: In Period 1 and Period 2, Fund B had a much higher exposure to international stocks than Fund A. Such style drift can indicate that your manager is not following the fund's stated objective.

If you notice your fund manager jumping on the bandwagon of past trends, he may be trying to save his own hide. Remember, the goal is to buy low and sell high, not jump in late and hope for the best. It takes real discipline to stick to a set of stated investment objectives. So always keep an eye on your investments and evaluate funds periodically to make sure they fit your asset allocation appropriately.

Understanding Fund Behavior:
Some Funds Do Not Behave as Advertised



The percentages illustrated in the image are based on each hypothetical fund's returns-based style analysis results using 36-month rolling periods. Style analysis represents the best combination of benchmarks that match the variation in fund returns over the time period. It does not represent actual holdings.

Roth IRA Versus Defined Contribution Plan

Contemplating whether to contribute to a Roth IRA or a defined contribution plan (such as a 401k)? Words of advice: Follow the money! If your company offers you a match for your DC plan contribution, you should keep investing in the account up to the maximum percentage that it will match. This is free money, and you won't find a better deal any place else.

After you've maxed out the match, it's probably wise to invest any remaining cash in a Roth IRA. You can put in as much as $5,000 in 2011 ($6,000 if you are 50 years or older), as long as your income doesn't top certain levels. You won't get any tax deductions with the Roth, but you won't have to pay any taxes on it for the rest of your life, which can turn out to be an advantage over a DC plan. Another plus for the Roth is that you can keep your money there forever, as opposed to a plan like a 401(k), from which you have to start taking withdrawals by age 70 1/2.

With a Roth IRA, one big advantage is the ability to take certain early distributions without paying the early distribution penalty. However, if you withdraw assets from an employer plan before retirement, you'll pay a penalty and taxes, but many firms offer employees the option of taking loans from their accounts.

If you're fortunate enough to still have money to invest after you've maxed out on your Roth IRA, then by all means start plowing it back into your DC plan. It's a good idea to have retirement money in different types of accounts, because you never know what the tax laws will be 30 years down the road. Please consult with a financial advisor or tax professional for the latest rules and regulations.

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