Robert A. Hoey CFP®

Planning Your Financial Future

Robert A. Hoey, CFP®
28 Park Avenue
Worcester, MA 01605
Phone: 508-798-8663
Roberthoey@Roberthoey.com

Hi,

I hope everyone is enjoying the spring/summer weather. Baseball is in full swing and hopefully the Sox can repeat their performance from last season. (Sorry if they are not your team) The children will be getting out of school soon and the summer season will be upon us.

If you have not met with me in the last year please give Debbie or Michelle a call to set up an appointment.

Do not forget to ask us about our upcoming workshop "Where do we go from here" on June 19th.

Have a good one.

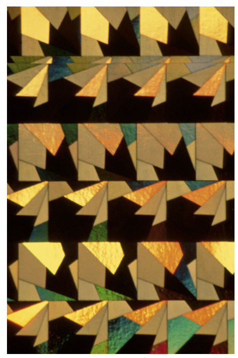
Rob

In this issue:

COMMONWEALTH *financial network*

Spring 2008

Style Drift: Do You Know Where Your Assets Are?



Every investment you own should have a specific role in your portfolio. However, even if you've established an appropriate asset allocation, it's a rare portfolio that remains static for years. Even if you don't alter your holdings, style drift may make changes for you.

Style drift occurs when a portfolio undergoes changes in its original approach. It is neither good nor bad, but monitoring changes helps ensure your portfolio reflects your intentions.

Watching for hidden shifts

Mutual funds provide a good example of how style drift can occur. Each fund has an investment objective; however, its manager may have flexibility in how that objective is pursued. For example, an actively managed stock fund may be known for investing in value stocks--those the manager feels are underpriced--while another fund might favor growth stocks with rapidly growing earnings. Depending on a manager's view of the market's future, a fund that has focused on growth stocks may shift toward value--or vice versa. Its style has drifted, even though its investment objective may have stayed the same.

The more specific a fund's name, the less latitude its manager may have. For example, a fund with a specific asset class or style in its name--let's say the hypothetical XYZ Small-Cap Fund--must invest at least 80% of its assets accordingly. Be sure to review a fund's prospectus before investing; annual and semi-annual reports should show any changes.

Getting caught in a drift

Another common example of style drift is a small-cap mutual fund that has large inflows of new assets. Because there are restrictions on how much of one company's stock a single mutual fund can hold, small-cap fund managers sometimes find themselves unable to invest enough in any individual small company to affect the portfolio's performance, and invest more in mid-caps. Or they may be reluctant to sell a solid small-cap company that has grown to mid-cap size. Still other examples:

- A manager who includes a significant percentage of international securities in a portfolio that has typically focused on domestic issues
- A portfolio that departs substantially from its so-called "neutral mix" of multiple asset classes

Even though it may be within a manager's discretion to make such shifts, style drift can affect your asset allocation. If your portfolio's expected return assumes that you have a certain percentage in, say, small caps or international stocks--or that you exclude them--your allocation and overall strategy can be thrown off without your realizing it.

Drifting away from an index

Style drift also can affect the standard by which you judge a portfolio's performance. Most mutual funds are benchmarked against a relevant index to ensure that you're comparing apples with apples. If a fund's style drifts dramatically, the index may be less useful as an indicator of how that fund compares to its peers. More importantly, determining the level and type of risk to which the fund exposes you may also become more difficult.

Don't overreact

Style drift may be part of a manager's overall strategy to try to boost performance. Staying on top of whether your investments may be undergoing a makeover, and understanding the reasons behind any style drift, can help keep your portfolio on track.

Coping with a Slower Economy

Economics isn't called the "dismal science" for nothing. There's an old joke that accuses economists of having predicted 9 of the last 5 recessions (and yes, those figures are in the correct order). However, forecasting the direction of the economy can seem easy compared with trying to figure out how to weatherproof your finances. It can help to understand some of the questions that many investors ask themselves if they're concerned about the potential impact of slower growth.

Is it time to check my portfolio?

Changing consumption patterns can have implications for a variety of companies and industries, and create investing opportunities. Some investing sectors might be especially economically sensitive and might therefore suffer from any economic downturn. On the other hand, some industries or companies may actually benefit from a slower economy. For example, companies that produce high-end goods might be relatively immune from economic pressures--or maybe not. Shifts in spending patterns could also mean that consumers continue to spend money but choose less expensive alternatives, or focus more on getting the greatest value from each dollar.

Changing consumption patterns can have implications for a variety of companies and industries, and create investing opportunities.

If you rely on your investments for income, you may want to review how sensitive your portfolio might be to changes in interest rates. If the Federal Reserve Board sees greater danger from a slowing economy than from the possibility of higher inflation, lower interest rates could cut into your income. Conversely, if the Fed becomes increasingly concerned about inflation, rates could go up. It might be a good time to see whether the yields you're receiving are competitive, and what kind of impact on your monthly income you might expect from any changes in rates.

Should I review my asset allocation?

Now might also be a good time to reexamine how your assets are divided among various types of investments. If you decide you need to shift a portion of your portfolio, those changes don't necessarily have to be made all at once. Consider:

- Adjusting only a portion of your bond or stock holdings
- Using systematic investing to shift allocations over time
- Investing any new money differently to increase your exposure to asset classes you may have neglected

How close am I to the edge financially?

The benefits of reducing debt should be pretty obvious, given the recent credit crisis. Troubles in the mortgage industry have driven home the importance of managing debt wisely. The last thing you need if you're worried about uncertain economic times is to lock yourself into spending patterns that push you beyond your means.

Whether the economy is in robust health or seems to be catching the flu, it's never a bad idea to have a cushion against unexpected financial stress. An unanticipated medical emergency--and is there any other kind?--a sudden job loss, or anything else that affects your income stream can bring the effects of a slower economy home in a dramatic way.

If you're employed in a highly cyclical industry or one that's undergoing substantial changes, having a financial reserve becomes even more important. And if a lot of your retirement plan savings are invested in your employer's stock, think about whether your long-term finances might potentially face a double whammy. Serious financial trouble at your company could mean the possibility of layoffs, a drop in the value of your holdings--or both.

Have I planned for the unexpected?

If you're planning to retire in the next few years, consider the potential impact if you were to be "retired" prematurely. It's easy to assume you'll work until a certain date or earn income after retirement, but health concerns and the job market don't always permit that. Doing some "what if?" calculations with an earlier retirement date than you might otherwise choose could prepare you for what might happen if you were laid off and had difficulty finding new employment, or were unable to work for health reasons.

A transition to a post-retirement career is likely to be easier if you plan thoroughly. For example, launching a small business can be challenging under the best of circumstances; try to have as much of the groundwork laid as possible before relying on it for your entire income. Sales estimates that are more conservative than they might otherwise be may help minimize cash flow problems.

Asking questions such as these lets you hope for the best while preparing for the worst.

Tips for Selling Your Home in an Uncertain Market

Will the combination of lower mortgage interest rates, higher inventory, and falling prices send buyers to open houses in droves this summer? No one knows for sure, but here are some ways you can increase the odds that your home will be sold at the best possible price before the leaves fall.

Price your home to sell, not sit

Pricing your home correctly is extremely important. Although it's tempting to "test the market" by setting a high asking price, this may turn off prospective buyers, or result in lowball offers, and your home may continue to sit on the market. A better alternative? Ask a real estate agent to do a comparative market analysis to help determine a realistic asking price, taking into consideration how much similar properties have recently sold for, and the average number of days homes have been on the market. It's especially hard to pinpoint the right asking price in areas where sales are slow and prices are falling, so remain ready to adjust your asking price later if necessary.

Sellers are often afraid of shortchanging themselves by setting their asking price too low, but a lower asking price may actually generate more interest, potentially leading to a much higher sale price if buyers submit competing offers. Even if no bidding war is triggered, you may end up selling your home quickly, an advantage if you've already found another home to purchase.

Advertise, advertise, advertise

Whether you're selling your home yourself or using a real estate agent, advertising is key, especially when there are many homes on the market. Make sure that any sales materials you or your agent prepare emphasize the features that might convince someone to choose your home over another. Target the right audience, too. For example, if your home is right for a growing family, why not highlight the flexible floor plan, the child-friendly neighborhood, and the large yard?

Buyers today expect to begin their search for a new home without ever leaving home, and online advertising has become an indispensable tool for marketing real estate. According to the National Association of Realtors®, 74% of people who used the Internet to search for a new home eventually drove by or viewed a home that they saw online, so make sure that your home is prominently featured on a real estate website. And remember, a picture is worth a thousand words. Buyers will look more closely at homes with numerous high-quality photos, and may bypass homes with none. For maximum exposure, consider adding a virtual tour that shows off your home's best features, even if it costs a little bit more to do so.

Sweeten the deal

To really make your home stand apart from the competition, consider offering incentives such as cash back at closing, payment of homeowners association dues, a home warranty, or even a gift card to a local furniture store. Incentives may help increase the number of home showings and encourage potential buyers to choose your home over another.

Enhance your home's appeal

How many times have you seen a home for sale that has obvious shortcomings--overgrown shrubs, peeling paint, or a jarring color scheme, for example? That's a home that may languish on the market while other similar homes sell quickly, because the owners are unaware that the appearance or condition of their home is the reason it isn't selling. Take a close and impartial look at your home, or better yet, ask your real estate agent to do so. Potential buyers may be noticing something that you're not. Often, completing simple tasks such as painting, cleaning, and getting rid of clutter can make your home more appealing to buyers. If your home needs updating, prioritize areas that are the most important and visible, such as the front of your home, the kitchen, and the bathrooms.

Don't curb your enthusiasm

One hazard of having a home on the market for a while is that your enthusiasm may wane over time. Buyer interest often peaks quickly (within the first few weeks after your home is listed), and it's easy to get discouraged if you don't receive any acceptable offers. But if you really want to sell your home, it's up to you to keep the momentum going. Schedule another open house, keep your home in good repair, and look for new ways to advertise. If your home hasn't sold within a reasonable time, you may have to reevaluate your asking price or even your decision to sell, but before you throw in the towel, make sure that you've done all that you can to attract qualified buyers.

Is it a beautiful day in your neighborhood?

An often-used phrase in the real estate industry is that "real estate is local." Though the news may be full of stories about nationwide housing trends, what's really important is what's going on in your area. A real estate agent can help you identify local housing patterns, such as which homes are selling (and for what price), so that you can maximize your chances of success.

Robert A. Hoey, CFP®
28 Park Avenue
Worcester, MA 01605
Phone: 508-798-8663
Roberthoey@Roberthoey.com

Ask the Experts

Can I be automatically enrolled in a 401(k) plan?

Yes. The IRS has long permitted employers to automatically enroll employees in 401(k) plans. These are sometimes referred to as "negative enrollments" because you have to elect not to participate.

Some employers have shied away from automatic enrollment plans because they were concerned that automatic payroll deductions might not be permitted under state law. Others were concerned that the default investments they chose for employees might be found to be "imprudent," resulting in fiduciary liability for any investment losses incurred by those employees.

In order to address these concerns, and to encourage retirement savings, Congress included provisions in the Pension Protection Act of 2006 that make automatic enrollment plans more attractive to employers. Under the law, employers who adopt "qualified automatic contribution arrangements" (QACAs) are exempt from some of the complicated testing requirements that usually apply to 401(k) plans. Under a QACA, your automatic contribution will be at least 3% of your pay for your first two calendar years of participation. The minimum contribution then increases by 1% each year until your automatic contribution reaches 6%. The maximum automatic contribution is 10%. An employer contribution is also required--either 3% (or more) of your pay, or a prescribed matching contribution.

The law provides that QACAs aren't subject to state payroll laws, and that employers who choose certain investments as the plan's default investment will be relieved of fiduciary responsibility for those investments.

In general, your plan administrator must provide you with a notice that explains the QACA and notifies you of your right to reduce or stop the contributions, and to change the default investments that have been chosen for you. Your plan may also provide a 90-day period in which you can opt out of the auto-enrollment arrangement and receive a refund of your contributions (plus any earnings).

What are qualified default investment alternatives?

There are times when an employer must make an investment election for employees participating in a retirement plan if the employee fails to make an investment election. For example, 401(k) plans with automatic enrollment arrangements must specify where the employees' contributions will be invested.

Some employers have been concerned about these "default" investments, because it hasn't been entirely clear if an employer has fiduciary liability for losses an employee might incur while in the default investment.

Congress addressed some of these concerns in the Pension Protection Act of 2006. The Act provides that employers won't have fiduciary liability if the default investment chosen for an employee is a "qualified default investment alternative" (QDIA). The Department of Labor has recently issued regulations describing which investments will satisfy the QDIA requirements. In general, an employer will avoid fiduciary responsibility if the plan offers a broad range of investment alternatives, and the default investment for employees who fail to make an affirmative investment election is one of the following:

- A product with a mix of investments that takes into account the employee's age or retirement date (for example, a lifecycle or targeted-retirement-date fund)
- An investment service that provides a mix of the investment options available under the plan based on the employee's age or retirement date (for example, a professionally managed account)
- A product with a mix of investments that takes into account the characteristics of the group of employees as a whole, rather than each individual (for example, a balanced fund)
- A capital preservation fund (for example, a money market or stable value fund), but only for the employee's first 120 days of participation

Employers must provide a notice to employees prior to the first QDIA investment, and must allow employees to change investments at least quarterly.