

PERSONAL WEALTH REPORT



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Ten Common Investment Mistakes to Avoid MONEY MANAGEMENT



No one likes to make mistakes that cost money. Yet there's no foolproof method for making successful investments. At the very least, you can try to avoid common errors that plague other investors. Here are ten mistakes to watch out for.

Mistake #1: You act too quickly. If you are all too willing to jump on the bandwagon—no matter which direction it is heading in—you

could end up losing money. Take enough time to carefully analyze your investment decisions and then act accordingly.

Mistake #2: You procrastinate. At the other end of the spectrum, you might “miss the boat” if you take too long to put your plans into action. This could result in missed opportunities for gains and missed chances to reduce or avoid losses. Once you have reached a well-reasoned decision, try to stick with it.

Mistake #3: You have no investment focus. If you take a scattergun approach to investing, at some point you will start missing your target or run out of ammunition. You have a better chance of succeeding (although there are no guarantees) if you develop a comprehensive plan designed to meet your objectives.

Mistake #4: You don't diversify. It cannot be said enough: Do not put all of your eggs into one basket. By spreading out your money, you reduce the risk of a financial loss. (Once again, however, there

are no guarantees.)

Mistake #5: You have not properly allocated your assets. Your portfolio may be too heavily weighted toward one investment classification or not weighted enough towards another. Make sure the allocation of assets matches your investment objectives.

Mistake #6: You underestimate your future needs. Don't assume that you will need substantially less income to live on in retirement. Instead, do a quick analysis of the income you expect to be receiving and the expenses you will be paying. You may find that you need to adjust your goals.

Mistake #7: You don't take taxes into account. When you are figuring what you expect to receive in income from taxable sources, don't forget that your earning power will be eroded by federal and state taxes. *(continued on page 3)*

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New Twists to 401 (K) Plans

How popular are 401(k) plans? According to the Investment Company Institute, at the end of 2003, an estimated 42 million workers were participating in 401(k) plans and total assets had neared the \$2 trillion mark. Over the last decade, the 401(k) plan has outpaced every other type of employer-sponsored plan.

RETIREMENT REVIEW

Basic premise: In the typical 401(k) setup, an employer allows participating employees to contribute part of their salary to the 401(k) plan. Each employee determines the amount he or she will contribute to the plan, within certain limits. (The maximum dollar amount allowed for 2006 is \$15,000.) Then

the funds are invested on behalf of the employees. Since the money is set aside on a regular schedule (e.g., amounts are deducted from your paycheck), this is a relatively painless way to plan for retirement.

Although an employer is not required to provide additional *(continued on page 4)*



This Is A Letter Worth Reading

ESTATE ANALYSIS

Hopefully you have your will locked away in a safe place where it cannot be destroyed by fire or some other catastrophe. However, no matter what your will says, it will not do your family any good if it cannot be found. In that case, a good will is the same as a bad will or no will at all. Similarly, if the terms of the will are not clear under the prevailing law, your family may wind up in court anyway. As a result, you may want to have your attorney draft a "letter of instructions."

Details: A letter of instructions is an informal letter giving your heirs valuable information concerning estate matters. It does not carry the same legal weight as a will, but it is important nonetheless. For instance, the letter may specify requests that should be carried out upon death. Copies of the letter should be attached to the original will and your personal copy. In addition, it's a good idea to place another copy in an accessible location known to family members, so it will be easy to find the letter in times of emotional distress.

The letter of instructions may cover several

issues, but here are the most likely candidates: returns.

Explanation of assets: The letter may provide a detailed inventory of assets. This can include checking and savings accounts (with records of passbooks and their locations); safe deposit boxes and their contents; business insurance and accident insurance; retirement plans; Social Security and veteran's benefits; stocks, bonds and other investments (including the names of brokers and account numbers); information on real estate holdings; and mortgage insurance.

In addition, be sure to list all life insurance policies. Include the insurance company's name, your policy number, the name of the agent handling the policy and any relevant papers.

Location of documents: Besides those assets already accounted for, you should also list all of your important personal and financial papers. This may prove helpful in settling your affairs. For example, you should disclose the whereabouts of your past federal and state tax returns and the records required for this year's

Don't forget to list all debts, credit cards and other accounts that may need to be paid off, cancelled or transferred to your spouse's name.

Miscellaneous instructions: Other items of a personal nature may be included in a letter of instructions. Some of these items are funeral, burial or cremation arrangements; fees that have been paid and cemetery plots selected; names, addresses and telephone numbers of people and organizations to be notified upon death; and other specific instructions for handling personal affairs.

You may want to state personal preferences and desires in the letter (e.g., wishes concerning the education of your children). Finally, you may explain the amounts that heirs can expect to receive as inheritances and the reasons for the distributions.

Reminder: A letter of instructions is not a replacement for a will. However, a properly structured letter can provide valuable guidance.

TAX TALK AMT Concerns: The Alarm Goes Off

The alternative minimum tax (AMT) was originally designed to apply to only the most affluent taxpayers. That's not the case anymore. Eventually, this "alternative" tax could become the regular tax regime for the majority of middle-income and upper-income taxpayers, as well as a sprinkling of low-income taxpayers.

According to a recent report by the Treasury Department, about 3.5 million taxpayers are expected to be snared by the AMT for the 2005 tax year. If you haven't been paying attention to the AMT thus far, it's time to wake up.

How it works: The AMT runs on a separate track beside your regular tax liability. After you have figured out your regular taxable income, your AMT liability must be computed. There are four basic steps.

1. You add certain tax preference items to your taxable income and make other technical adjustments required by law.
2. Then you subtract from this figure a special exemption amount based on your filing status.
3. Next, apply the AMT rate to the net amount. For the 2005 tax year, the applicable rate is 26% on the first \$175,000 of AMT income; 28% for amounts above \$175,000.

4. Finally, compare your AMT liability to your regular tax liability. If the AMT is higher, you are required to pay the excess in addition to your regular tax liability.

The list of preferences and technical adjustments is a long one. Suffice it to say that the AMT computation requires you to add back certain itemized deductions and personal exemptions. That is one of the reasons why more taxpayers have become unintentional victims of the AMT. For instance, taxpayers who reside in states with high income tax rates often encounter AMT problems.

Another problem: Although Congress has tinkered with the exemption amounts the last few years, it has failed to provide an annual inflation adjustment. To compound this problem, the exemption amounts are phased out for high-income taxpayers. Each exemption is reduced by 25 cents for each dollar of AMT income over \$150,000 for joint filers; \$112,500 for single filers.

Bottom line: You might have to pay this onerous tax when you file your 2005 tax return. Consult with a professional tax adviser for your personal situation.





INSURANCE IDEAS

Should You Stick with Term Insurance?

“Buy term and invest the rest.” That’s a strategy used by some people, especially those looking for the maximum life insurance coverage at the minimum cost. But at some point it may make sense to switch from term to a permanent form of insurance. For instance, term insurance is relatively inexpensive early in life—but the cost can increase significantly after that.

Depending on the policy, you may be able to switch from term coverage to a cash value policy without going through the usual medical examination.

Background: The traditional form of cash value insurance is whole life insurance. Instead of increasing costs over time, you pay annual premiums that are fixed at the time you take out the policy. In other words, your cost does not change from year to year. The younger you are when you sign up, the lower your premiums.

When compared with term insurance, a whole life policy is generally more expensive, especially during the first few years the policy is in force. But the difference decreases as you get older. Eventually, you may reach a point when term is more expensive than the net long-term cost of whole life.

Some other advantages of whole life insurance are:

*Part of the premium that you pay goes to insurance

protection; the other part is invested and increases the cash value. You may be able to tap into the earnings by borrowing against your cash value. Alternatively, you might add to the death benefit.

*Since the policy’s annual premiums remain level throughout the policy, whole life insurance should become easier to maintain than term insurance as the years go on.

Of course, that is not to say that whole life insurance is without its disadvantages. Besides the costs involved, consider these other factors:

*It takes time for the cash value to build up in a whole life policy. The interest rate you can obtain with the whole life policy is a major consideration.

*Whole life is not as flexible as some other types of life insurance policies. **Reason:** The premiums are fixed for the entire life of the policy. And the return on your investment may lag behind other investments in a rapidly changing economic climate.

*Term life insurance is a “plain vanilla” type of insurance product. You may be better suited to a more sophisticated type of cash value policy.

Should you switch to whole life or not? Everyone’s situation is different, and term insurance may continue to fit your needs as you get older. The best way to find out is to schedule a consultation with an experienced financial services professional.

Ten Common Investment Mistakes to Avoid (continued from page 1)

Mistake #8: You overemphasize taxes. Do not let taxes become the be-all and end-all. Be sure to add taxes into the equation, but consider all the other relevant economic factors.

Mistake #9: You ignore the potential effects of inflation. As with taxes, inflation can erode any investment earnings you accumulate over time. If you ignore the impact of inflation—even at relatively low rates—you may end up with a shortfall during your retirement years.

Mistake #10: You don’t review your portfolio. No matter how carefully you have analyzed your investment choices, changing economic conditions and other new developments will require

you to review your portfolio on a periodic basis. You cannot simply leave well enough alone.

In summary: One of the worst mistakes you can make is to try to do it all on your own. Do not hesitate to seek advice from a qualified professional.

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New Twists to 401 (K) Plans (*continued from page 1*) funds, it may choose to do so in a matching plan (e.g., contributing 50 cents for every dollar deferred). In any event, an employee may be able to set aside a sizeable amount for retirement. Of course, there are no guarantees as to investment earnings, but the contributions may accumulate on a tax-deferred basis over time.

Furthermore, “catch-up” contributions are permitted for employees who are age 50 or over. For example, in 2006 you can add up to \$5,000 more to the pot if you qualify.

Key point: A 401(k) plan must benefit employees in general. It may be disqualified if highly compensated employees contribute



a disproportionately higher amount than lower-paid employees. In general, withdrawals from the plan can be made when an employee separates from service or due to death or disability. Otherwise, withdrawals before age 59½ are generally subject to a 10% tax penalty plus regular income tax.

In the last few years, a few new features have increased the viability of 401(k) plans for employers and employees.

This includes the following:

*“Solo” 401(k) plans for small businesses have increased as administrative costs have been reduced.

*An employer may institute an automatic enrollment program to ensure that the company meets certain participation requirements under the law.

*Safe-harbor plans have been designed to reduce the strict compliance burdens facing employers. These plans allow you to bypass complex testing procedures and permit highly compensated employees to maximize their contributions.

*A new Roth IRA feature may be added to an existing plan that enables 401(k) plan participants to make qualified distributions free of any income tax. This new feature—called the Roth 401(k) plan—first becomes available on January 1, 2006 (although the tax law provision authorizing this plan was enacted in 2001).

Obviously, there are numerous options to choose from. With professional assistance, you may be able to maximize the benefits available through a 401(k) or some other retirement plan.

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