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WEALTH MANAGEMENT ADVISOR

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FERRELL
WEALTH MANAGEMENT INC.
Registered Investment Advisor

Fairbanks Professional Center
1400 W. Fairbanks Ave.
Suite 202
Winter Park, FL 32789
Phone: (407) 629-7008
Facsimile: (407) 629-7516

Does your bank still meet your needs?

Reviewing your banking relationships probably isn't near the top of your financial to-do list. But bank services and fees are constantly changing, and the mix that originally attracted you might bear little resemblance to your bank's current offerings. Thus, a periodic review is in order.

What services do you really need?

Begin by asking yourself what's most important to you. If your time is limited, for example, but you prefer to handle your banking in person, a bank close to your home or office might be the best choice.

If you like doing business at a "bricks and mortar" bank — as opposed to handling most of your needs online — you'll be pleased to know that the trend is toward greater accessibility. A number of banks are now open seven days a week, with extended opening and closing times that go far beyond the traditional, limited "banker's hours."

If you travel often, consider selecting a bank with locations all over the country, or at least a wide-ranging ATM network. While you're at it, check to see if the bank you're considering is part of a network of no-fee ATM providers and what the costs are for using out-of-network ATMs. If you travel internationally, you'll want to know the fees for using ATMs in foreign countries.

Exploring online options

Online banking choices abound these days, with direct deposit of paychecks and online bill paying heading the list of features to inquire about. Formerly sources of revenue for banks, both services are now widely available at no charge. What's more, some banks now offer customers with smart phones the ability to check account balances, transfer funds and even deposit checks (using your phone's camera).

The number of Internet banks — those that do most of their business online — has grown steadily during the past decade. With their low overhead, these institutions frequently can offer higher rates on checking and savings accounts

Banking priorities for small business owners

If you own a small business, the chances are good that you'll need a loan at some point. In that case, you might want to establish a relationship with a smaller community bank.

Research shows that smaller banks are more likely than larger banks to lend you money. For example, data from the Federal Deposit Insurance Corporation from the third quarter of 2009 shows that, even though small and medium-size banks controlled only 22% of all bank assets, they accounted for 54% of small business lending. Larger banks tend to be more bureaucratic and rigid, while a smaller bank might be willing to take the time to understand your business and realize that sometimes there are justifiable exceptions to normal lending guidelines.

That said, it makes sense to explore all of your funding options, because larger banks sometimes offer better rates. In addition, some banks provide business owners with advice on cash flow management, strategic planning and other matters. Here, too, it pays to ask a lot of questions up front and periodically review your options to make sure you're getting the best deal.

than traditional banks can. Currently, the top-yielding online deposit accounts pay well over 1% annually, with no minimum holding period. Even though 1% might not seem like much, traditional savings accounts typically pay a fraction of that in today's low-interest-rate environment.

One useful strategy is to set up an electronic link between a higher-yielding online savings account and a checking account at your favorite local bank. Look for a flexible arrangement that allows you to transfer money between such accounts with minimal restrictions, making it easy to sweep any excess funds into your savings account, where they'll earn more interest.

Before taking this step, though, consider exploring what advantages there might be — such as preferential rates on deposits or loans — to concentrating your assets with a single institution. For example, many banks offer higher interest rates on jumbo CDs, which typically require deposits of $100,000 or more. Additionally, high-net-worth customers can often benefit from more-individualized relationships with loan officers, investment advisors and other bank personnel.

Focusing on fees

Recently, banks have responded to a soft economy and the federal government's financial reforms by increasing fees in certain areas. Some deposit accounts that used to be free now come with monthly fees. Late-payment fees and penalty rates on credit card accounts have been rising as well.

Overdraft protection, a service that pays charges that overdraw an account rather than letting them bounce, has recently undergone some changes. Customers must now "opt in" for overdraft protection rather than having it provided automatically. You'll still pay for the privilege, of course. Some banks offer e-mail and mobile text alerts to notify you of a low account balance, which is a good way to avoid these fees.

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Making the most of your banking relationship

The recent credit crisis and recession spurred the most significant overhaul of regulations governing the banking industry since the 1930s. Additionally, ongoing industry consolidation and technological innovation continue to transform how people interact with banks. In this environment, being proactive about selecting your banking relationships can yield meaningful benefits. ■

Keep emotions in check when making investment decisions

The recession and the continuing sluggish economy have pushed investors' emotions to the extreme. Deciding what to do with your investments during tough times can be difficult, and emotions sometimes get in the way of making sound choices. But there are ways to maintain your objectivity.

Effects of emotion

One reason emotions can come into play is that people tend to extrapolate future performance from recent trends. When the markets are moving steadily downward, for example, fear can kick in. In an effort to minimize their losses, investors may unnecessarily lock them in by selling otherwise good stocks at bottom-of-the-market prices and then holding funds in cash while the market rebounds.

In difficult economic times, investors also may overlook potentially good buying opportunities, instead seeking "conservative" investments, such as money market investments. But because of their limited appreciation potential, these are a poor choice for many long-term investors who need to keep their assets growing faster than inflation.

On the other hand, people often don't like to admit when they're wrong. That stubbornness can cause investors to hold onto a bad stock (one with little potential to rebound) rather than cut their losses and reinvest the remaining proceeds into a better opportunity.

Too much information focused on short-term market conditions — made possible by the Internet and 24-hour financial news networks — can also lead to poor financial choices. When investors don't know how to prioritize what they read or hear, they may become paralyzed with indecision or resort to unprofitable strategies, such as excessive trading.

Controlling emotions

Even though it's natural to experience emotions in response to market volatility, there are steps you can take to reduce their impact on your investment decisions. For example, take advantage of automatic investment plans. Offered by most financial institutions, these plans allow you to invest set amounts of money at regular intervals. By investing on a schedule, you can avoid the temptation to buy and sell at inopportune times, and actually buy larger quantities when prices are lower.

It's also important to develop an individualized wealth management plan. Your financial advisor can help you determine the appropriate asset allocation for your age, goals and tolerance for risk. Be sure to record these goals, making them as specific as possible. Stick to your plan, regardless of what's happening in the market, and meet regularly with your advisor to discuss any needed changes to your plan.

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Finally, diversify your portfolio. As the truism goes, avoid putting too many of your eggs in one basket — whether it's your employer's stock, a "can't miss" opportunity your friend is touting, or just a successful investment held for many years. Owning various types of securities that will respond differently to changing market conditions is one of your best defenses against market volatility. Knowing your portfolio is well positioned can help reduce your temptation to make poor financial choices.

Make sound investment decisions

Investors have endured a years-long emotional rollercoaster ride, as financial markets have taken extreme climbs and drops. To better keep your emotions in check when making investment decisions, have your financial advisor review your portfolio to ensure it's diversified and help you create an individualized wealth management plan, if you don't already have one in place. ■

Tax reduction strategies for a growing family

Great news! You and your spouse had a baby last year. Or perhaps one of your children just started college. Amid the joy of having your family grow — or grow up — the thought may have crossed your mind that raising children today is expensive. Thus, it's in your best interest to reduce your income tax liability by:

Taking advantage of additional exemptions. The value of each personal exemption is set every year by the IRS. For 2010, it's $3,650. So, for example, if you have three children, that's an additional $10,950 you can deduct from your taxable income on your 2010 tax return — you typically receive an exemption for yourself and your spouse, too. Older children still count as dependents if you're their primary source of support or they're full-time students.

For 2010, no income-based phaseout applies to the personal exemption. So, depending on your income, you may get a bigger benefit on your 2010 return than you have in recent years.

Using applicable credits. Unlike deductions, which are subtracted from your taxable income and so reduce your taxes at whatever your effective tax rate is, credits are subtracted directly from your tax liability and therefore carry more dollar-for-dollar tax-cutting punch.

One credit you may be able to take advantage of is the child credit, which can cut your tax bill by up to $1,000 per child. Others include the child and dependent care credit and the adoption credit. Keep in mind that income restrictions apply that may limit or eliminate the tax benefit.

Seeking higher education tax breaks. The American Opportunity credit is a reformulation of the popular Hope credit. The credit is worth up to $2,500 for 2010 and covers the first four years of postsecondary education.

However, income-based limits apply, so consult your tax advisor to see if you're eligible. If you aren't, your child may be eligible — but you'll have to forgo the personal exemption for him or her (and your child may not be able to take the exemption either).

Contributing to an ESA. Coverdell Education Savings Accounts (ESAs) offer a tax-advantaged way of saving for your children's education expenses. Contributions to an ESA aren't tax-deductible, but money deposited in the account can grow tax free until distributed. Even then, no tax is owed if the distribution is used to pay for qualified education expenses.

However, unless Congress takes action, ESAs will become less attractive starting in 2011 for two reasons: 1) Total contributions for any one child will revert to the old annual limit of $500 (down from $2,000 in 2010), and 2) only distributions used for qualified postsecondary expenses will be tax free. (In 2010, distributions used for qualified expenses related to elementary and secondary school were also tax free.) Check with your tax advisor to see if Congress has extended the 2010 tax benefits to 2011.

Contributing to a 529 plan. A 529 plan is an education savings plan operated by a state or an eligible educational institution and designed to help families save for college costs. As with ESAs, contributions to 529 plans aren't deductible, and no tax is due on distributions used to pay qualified education expenses. Contribution limits are set by the sponsoring state or institution and are generally much higher than the ESA limits.

Reviewing and revising your strategies. As your family grows — and grows up — it's important to review and, if necessary, revise your tax strategies. Keep in mind that tax laws change frequently, so be sure to touch base regularly with your tax advisor to make sure you're doing all you can to reduce your tax liability. ■

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2 charitable giving vehicles: DAFs and private foundations

Tim and Joy feel fortunate to have experienced so much prosperity during their lifetime. Already charitably inclined, the couple would like to increase their activities in light of the effects of the struggling economy on their favorite charities.

After discussing their plans with their financial advisor, Tim and Joy narrowed their focus to either a donor advised fund (DAF) or a private foundation. Let's take a closer look at the ins and outs of each.

DAFs

Sometimes referred to as a "light" version of a private foundation, a DAF is typically easier to set up and maintain. Generally, creating a DAF requires no more than completing a short application and making an initial contribution as low as $10,000 to a sponsoring organization, such as a community foundation. The sponsoring organization takes care of the record keeping and legal work necessary to create and manage the DAF.

With a DAF, you recommend which charities should receive gifts from the sponsoring organization. You may make contributions from a variety of asset classes, such as cash, securities, mutual funds and real estate. Be sure to check with your sponsoring organization to see if it has any contribution restrictions.

Because a DAF is a charitable fund sponsored by a public charity, it qualifies as a public charity for tax purposes. This means your annual contributions to a DAF are subject to the highest adjusted gross income (AGI) limit under tax law: a 50% of AGI limit for cash contributions and a 30% of AGI limit for contributions of appreciated assets.

In the minus column, when you contribute assets to a DAF, the sponsoring organization becomes their legal owner and it isn't required to follow your wishes as to how they're used, though DAFs generally do follow their donors' wishes. In addition, the DAF can't make contributions, such as a scholarship, to individuals or to foreign charities.

Private foundations

If you want to give away a large sum of money, a private foundation may be right for you. Initial contributions generally are significantly higher than for a DAF — typically starting around $250,000 to make the additional setup and maintenance costs worthwhile.

Creating and operating a private foundation is indeed a considerable step up from a DAF. A foundation is an independent legal entity that requires complex financial reporting and record keeping. Its main advantage over a DAF is that you can control (rather than just recommend) how your contributions are used. Additionally, unlike a DAF, a foundation can make gifts directly to individuals or to nondomestic charities — if certain guidelines are followed — as well as to domestic charities.

In a nutshell, you create a private foundation as a not-for-profit trust or corporation that accepts charitable contributions. The foundation's board of directors, composed of you and trusted family members, friends or advisors, manages the foundation's assets and directs grants to other charities. If over time you become unhappy with the performance of an organization benefiting from your foundation or your philanthropic goals change, you can redirect the foundation's future grants elsewhere.

Annual deductions for contributions to a foundation are subject to tighter limits than those that apply to DAF contributions: a maximum of 30% of AGI for cash contributions and 20% for contributions of appreciated assets.

Making the right choice

If you're charitably inclined and ready to greatly increase your contributions, it's wise to learn more about DAFs and private foundations. Because there are strict IRS rules to follow for both giving vehicles, talk to your tax advisor to learn the details of each one. ■

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WEALTH MANAGEMENT INC.
Registered Investment Advisor

www.Ferrellwm.com
Tel: 407-629-7008

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James W. Ferrell, MBA, CFP®,CPA, PFS, CIMC
President
A Certified Public Accountant (CPA), Certified Financial Planner (CFP), Personal Financial Specialist (PFS) and Certified Investment Management Consultant (CIMC), Jim is the founding shareholder and President of Ferrell Wealth Management, Inc.

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Senior Financial Advisor & Marketing Director
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J.L. Hurt IV
Senior Financial Advisor & Research Analyst
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Pedro Lebron
Senior Financial Advisor & Compliance Officer
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Eric Faber
Financial Advisor & Business Developer
Eric is an investment advisor responsible for helping clients establish and achieve their long-term financial goals through comprehensive financial planning.

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