

You Filed Your 2005 Tax Return – Now What?



John S. Davis

Peter G. Haag

Thomas B. Adams

Tammy M. Prim

Introducing the staff

John S. Davis, CFP, is the president and founder of Mentor Capital Management Inc. Peter G. Haag and Thomas B. Adams, CPA, are financial planning associates of Mentor Capital. Tammy M. Prim is administrative assistant with Mentor Capital.

Toward Financial Peace of Mind

Most people go through life thinking little about their personal finances. They close their eyes, move ahead and hope for the best. Whether they succeed depends largely on luck.

For people who don't want to pin their hopes for financial success on luck, we have the answer. It's called comprehensive financial planning, and it works. We have the expertise, the objectivity (because we are purely fee-only) and the resources to assure our clients financial success and peace of mind.

Our work begins with a no-obligation initial consultation, during which we discuss with the potential client their financial concerns, their goals and their objectives. Together we determine whether our services are appropriate and of value. We agree on the terms of the engagement and establish our fee.

Next we gather data from the client – virtually everything related to the client's finances: income and expense, assets and liabilities, employee benefits, taxes, insurance and estate plan. The timing of the client's goals as well as his or her risk tolerance are also taken into consideration.

Please see **Peace of Mind** on Page 2

Asset Allocation: More Than Just Diversification

Are your investments properly diversified? How do you know? Diversification simply means that you don't have all of your eggs in one basket. The more different types of investments you have the more diversified you are.

Asset allocation is a scientific approach to diversification. First, we must carefully define the investment categories. The first breakdown is between equities (stocks and mutual funds that represent ownership of a company) and fixed income (bonds, CD's and the like, which are simply loans of money to a company).

Please see **Asset Allocation** on Page 2

Congratulations! You finished the annual ritual of filing your income taxes. Now you can put these annoying financial matters out of your mind for another year and focus on the start of the baseball season, right?

Not so fast. Tempting as it may be to relegate your finances to the filing cabinet, in many ways, now is the best time to address a few things that will pay big dividends over the next year:

► *Did you get a big refund?* Before you start thinking of it as a windfall, remember that this was your money to begin with. You just gave Uncle Sam an interest-free loan last year and he is now returning it to you. Better to adjust your withholding so that next year your balance due on April 15 is close to zero. If you have been living comfortably that extra money in your paycheck should go into a systematic savings or investment plan.

► *Conversely, did you owe a lot?* Although most people do get refunds, it's OK if you don't, provided that you can afford to pay it and are not socked with a penalty. The IRS won't assess a penalty if the balance due is less than \$1000 or less than 10% of this year's tax liability or if your withholding and credits were at least as much as last year's taxes.

► *Did you take full advantage of opportunities to defer income?* With your taxes done it is now easy to see the impact of making pre-tax contributions to an IRA, 401(k) or other type of retirement account. If your employer matches your contributions and you are not maxing out the company's share you are leaving money on the table. But even without matching, the tax benefits usually make it worthwhile to put as much

Please see **Now What?** on Page 2

Now What?

Continued from Page 1

as you can afford into such a plan. Although there are hardship exceptions, you should think of this money as being inaccessible until age 59 ½.

▶ *Did you have a lot of dividend and interest income?* Perhaps you should consider sheltering this with a Roth IRA. While the contributions are not tax-deductible, all growth and earnings are free of taxation up to and including the time you withdraw the money.

Peace of Mind

Continued from Page 1

We then perform a complete analysis of the data and prepare a comprehensive written financial

plan that includes specific recommendations aimed at improving asset utilization and goal achievement. We work with the client throughout the year to implement the plan and to help manage any financial issue that may arise.

Our recommendations typically fall among seven areas:

- Cash flow
- Cash reserve (emergency fund)
- Investments
- Risk management (insurance)
- Financial independence (retirement)
- Tax management
- Estate planning

We work very hard to help our clients succeed financially. Because when our clients succeed, we succeed too.

Asset Allocation

Continued from Page 1

Equities can be further broken down by the size of the company, foreign vs. domestic, industry, etc. Bonds are usually categorized by maturity and credit quality.

The next step is to define your targets – what percentage of your investments do you want to have in each category? This depends on your time horizon, risk tolerance and need for income. Ultimately you want to construct a portfolio that provides the growth and income you need and minimizes the risk and fluctuations.

While many brokerage firms and mutual fund companies offer help with this, the approach is generally simplistic and not tailored to an individual's needs. An experienced advisor who understands correlation and tax-efficiency can help you define and implement targets that meet your precise goals.

Financial Planning News is published monthly and © by Mentor Capital Management Inc., 105 S. York St., Suite 450, Elmhurst, IL 60126. For questions or comments, phone us at 630-530-1191 or send an email to: newsletter@mentoradvisers.com. Every attempt is made to assure accuracy; however, the publisher assumes no responsibilities for errors or omissions. Readers are urged to seek professional advice before acting on any recommendations herein.

To Our Readers

You are receiving *Financial Planning News* because you are a client of Mentor Capital or because we thought you might be interested in its content.

If you know of anyone else who might appreciate receiving *Financial Planning News*, or if you would like to be removed from our list, please phone 630-530-1191 or send an email to newsletter@mentoradvisers.com.

Financial Planning News is also available as an Adobe Acrobat pdf file via email. Please let us know if you would prefer this method of delivery.

