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Economic Shifts Bring New Pitfalls And Prizes

Prepare yourself for a bumpy ride. As the new year dawned, most economists still expected the United States to avoid a recession in 2008. But then the stock market began a persistent downward slide, housing news kept getting worse, and America's economic woes seemed to spread around the globe. Add in the unpredictability of the presidential election and you have an equation that almost guarantees investors a turbulent year.

Consider these recent developments.

- The housing market remains in a tailspin. Faced with sluggish sales, sellers have been forced to slash their prices or take their homes off the market. With the current glut of homes, most experts don't expect much improvement before 2009.
- The subprime mortgage crisis hasn't abated, and major financial institutions continue to write down bad debt. Some estimate the total cost at over $100 billion.
- The price of oil cracked the $100-a-barrel threshold, and gas prices could soar to $4 a gallon or more this summer.
- In 2007, the dollar suffered through its worst year since 2003, falling by about 9% against other major currencies. Low interest rates, a credit crunch, and related economic worries have kept foreign investors at bay.
- The Dow Jones Industrial Average set a record last year, but then suffered two of its biggest-ever daily point drops and slipped below 12,000 during January.

It's impossible to know what the next months will bring. Steep interest rate cuts and an economic stimulus package may eventually get the economy out of its doldrums, and investment markets could bottom out and begin a comeback. But an extremely tough year is equally possible.

What's an investor to do? These seven ideas could help keep you moving toward your financial goals.

1. Diversify, diversify, diversify. Now is not the time for big bets on asset classes or sectors. Instead, use a broad mix of investments to reduce downside risk.

2. Review your asset allocation. Even if you started out with a diversified portfolio, the recent market turmoil may have pushed it out of balance. For example, emerging markets have been outperforming other stocks, and what was once a relatively small allocation to these investments may have grown to a much larger share of your overall holdings. You should sell some of those stocks or funds to reduce risk and get back to your original portfolio weightings.

3. Investigate refinancing your mortgage. Don't be scared off by the mortgage crisis if you qualify for a lower rate through a reputable lender. You could use some of your savings to pay off your new loan ahead of schedule.

4. Shore up your cash reserve. If you squirrel away enough cash, you'll be able to weather an economic storm or pounce when a good financial opportunity arises. You should set aside enough to last from three to six months, but more if you're self employed or feel your job is vulnerable.

5. Prepare your bonds for uncertain times. Questions about the economy, interest rates, and inflation could mean a volatile year for fixed-income investments. Creating

(Continued on page 4)

TAM Financial To Collaborate With Morningstar

The change in seasons brings more changes at TAM Financial Advisors—changes we think that you will see almost immediately.

First, we've joined forces with Morningstar, one of the preeminent names in the financial services industry. Morningstar will be another excellent tool in our investment research, portfolio rebalancing, asset allocation, portfolio performance reviews, and other money management activities.

Second, to facilitate this new partnership, we have hired Sherry Krum to work with Morningstar to bring the new system to full functionality as quickly as possible. After that, she'll be working with our full-service clients to incorporate assets like active retirement plans that are managed by TAM Financial but are not housed at TD Ameritrade. (Stay tuned for more system upgrades after that!)

Many of you know that we took a major step forward last year when we hired Lauran Jack, a CPA/MBA who has been focusing on our wealth management clients' tax efficiency. In addition to client-specific work, Lauran is preparing a company-wide review of tax-deferred accounts to consider the value of rolling some or all of your regular IRA assets into Roth IRAs when the income cap is removed in 2010.

Enjoy your summer!

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Teaching Children Obligations Of Wealth

One of your greatest gifts to your children and grandchildren could be your spirit of philanthropy, an understanding that with wealth comes a responsibility to help other people. But charitable instincts may not come naturally, and the sooner you involve your heirs in your own good works, the more likely they'll carry on your tradition of giving.

You might start by inviting them to help you with your contributions. Then, as they see what causes you support—and how much satisfaction it gives you—they can begin to find their own philanthropic paths. These suggestions can help.

Have a plan. A bit of structure helps kids organize resources, set goals, and learn to compromise with other family members about who should receive their charitable gifts. You can work with them to establish guidelines for when family members first get involved, how much they give, and what contact they may have with the recipients of the gifts. In 2005, Foundation Source released The Gifting Game, an interactive tool that helps families select organizations for charitable donations.

Call a meeting. The family that gives together is more likely to keep the momentum going. Gather everyone together annually and compare last year's results with what you hope to accomplish this year. When the business portion of the meeting is over, celebrate together.

Consider a match. When children agree to donate some of the money you've given them—or to contribute part of their earnings from chores, summer jobs, or an allowance—a matching donation from a parent or other family member can reinforce the giving habit.

Give them freedom. When kids, with an adult's guidance, get the opportunity to create their own programs of charitable giving, the projects may take on a life of their own. One wealth manager began a family tradition of giving each of his eldest grandchildren $200 a year to spend on that child's choice of charity. Together, the children have created a structure for their fledgling foundation and are getting additional siblings and cousins involved.

Let them choose. Inviting kids or grandkids to donate to your favorite charity is one thing, but the lesson of charity is much more effective when children are allowed to choose their own causes and discover the joy of giving. Children can be deeply moved by disasters reported in the media and the people affected by them. In addition, many children are eager to give to organizations that have touched the lives of people they know, such as researchers for various diseases, hospitals, and nonprofit groups in their communities.

We can help you involve your heirs in your philanthropic initiatives, explain the financial aspects of charitable giving, and work with them to develop their own programs of giving. ●

When Is It A Good Idea For You To Amend Your Tax Return?

Filing a tax return once is enough of a hassle. Doing an amended return for the same tax year—in other words, filing twice—seems like way too much. Yet about 3.5 million amended returns were filed during 2004, about 2.6% of all individual returns filed that year.

Does an amended return increase your chance of being audited? Technically no. But it will extend your exposure to IRS challenges. The agency can come after you for back taxes for up to three years from the date you file a return, and if you refile, say, a year after the fact, that restarts the clock.

Still, filing an amended return can put money in your pocket. So here are some of the most common reasons to file IRS Form 1040X:

You get an amended 1099, K-1 or W-2. These are forms sent to you by banks, brokerages, investment partnerships, employers, or others. It's not uncommon for these firms to make mistakes and resend a corrected form months after sending the original. And even if the corrected form will mean only a small change in your tax liability, you'll still need to file an amended return, since the government also receives a copy of revised forms and will match them to your return.

You're a sole proprietor, a shareholder in an S-Corporation, ***or the owner of a partnership***. As such, you may have strong incentives to file an amended return, since pension or profit-sharing plans for one year can be funded with earnings from the following year. Say you get a windfall after filing your 2006 return. You can use it to increase pension plan funding for 2006, retroactively giving yourself a larger deduction. You can reflect the

Why A Financial Plan Can Make You Happy

Remember what it felt like to get that first-ever paycheck? What about the first time you made a tidy profit on a well-chosen stock? Chances are you don't get the same kick today. When you've gotten accustomed to success and having money becomes old hat, it may hinder your happiness and satisfaction, say psychologists and economists. A well-thought-out financial plan can help.

"The key to being happy isn't how much you earn," said George Lowenstein, an economist at Carnegie Mellon University. "Happiness comes from gaining control over your finances and figuring out what to do with your money."

Several studies during the past five years confirm that you can't put a price on happiness:

• The same level of personal happiness was experienced by the very wealthy individuals on the Forbes 400 list and by members of Kenya's Maasai tribe, a herding people without electricity or running water, according to a University of Illinois study.*

• In a University of Michigan survey, lottery winners and inheritors of sudden wealth had similar experiences. Within a few months or years, all that extra cash lost its ability to boost overall contentment.*

• In numerous reports, psychologists have found that gains in wealth often leave us feeling we're getting nowhere—because even though we have more, we're not gaining on our peers.

• Six-figure earners are no happier than those who make $50,000, according to a survey by economists at the University of Chicago. For those who were surveyed, once basic needs were met, additional assets didn't result in greater contentment. And greater access to luxuries only fueled the need for more and more and heightened peer competition.

Yet even if money can't buy happiness, few of us would turn down the chance to increase our bottom lines. So exactly what are we seeking? "It's physically impossible for a piece of paper like money to make you happy," writes career coach Pamela York Klainer in her book, *How Much Is Enough? Harness the Power of Your Money Story*. "Instead, what makes people happy is the feeling of security money brings."

How secure your wealth makes you feel depends in part on how you use it. Economists at Harvard University have found that income accounts for only 1% of happiness; health, family, and community rank far higher in helping make us happy. Yet when you combine income with those values, income rises on the scale. That's where a financial plan comes in. Ideally, it will help integrate money with values.

To succeed in providing a road map to happiness, however, a financial plan must do far more than specify asset allocations, explains George Kinder in his book, *The Seven Stages of Money Maturity*. An effective plan should help shape your success according to your short- and long-term goals and personal values. In addition, because it's tailored to your individual needs, a plan can mitigate the extent to which you feel you must measure yourself against your peers.

For example, if you want to travel during retirement and provide your kids with a good education, you can develop a plan structured to maximize college and retirement savings opportunities. Similarly, if you feel strongly about certain causes or institutions in your community, you can put together a carefully structured charitable giving plan. Consider a lottery winner who donates some of his windfall to charity —he or she will likely feel greater long-term satisfaction than someone who uses the entire winnings to finance personal luxuries.

"We're now realizing that we have been too focused on the financial aspects of decision-making rather than the emotional ones," says Stephen Butler, president of Pension Dynamics Corporation, a California-based pension consulting firm. "Understanding emotions may represent a far greater contribution to the well-being of those preparing for, or enjoying, retirement."

Of course, you have worked extraordinarily hard to achieve success and deserve to treat yourself to a spontaneous shopping spree or luxurious vacation every now and then. But when everything happens in the context of a well-considered financial plan, you'll feel better about those special "occasions of consumption," as economists call them—and that can elevate overall contentment and satisfaction.

Come in to talk with us about your hopes and dreams. Together we can create a financial road map to help achieve them so you can enjoy happiness and fulfillment. ●

*The University studies cited in this article used a similar equation to measure happiness: Happiness = reality – expectation. Generally, respondents were asked to rate satisfaction and success in certain aspects of their lives on a numerical scale.

Common Reasons To Make Amends

change on an amended return. You have until the extended due date for the 2006 return (at least until August 15, 2007).

You discover an overlooked deduction when checking through your records, such as from a charitable contribution.

The law or IRS rules have changed. Sometimes the IRS clarifies a rule or a court ruling will liberalize a tax break.

You miscalculated when figuring your tax liability for selling a mutual fund. Often, investors count only their original purchase price as their cost, not realizing that reinvested income also qualify. Your actual gain could be much lower than the amount you reported to the IRS.

In most cases, filing an amended return will cost $200 or less. And if only one or two calculations have to be changed, it shouldn't be a big deal. No one likes to deal with the IRS and taxes, but you could be leaving money on the table by shunning a 1040X.

To keep up-to-date on tax law changes affecting your taxes and your business, visit www.irs.gov or call *800 829-1040* (individuals) or *800 829-4933* (businesses).●

Ideas To Help Control Your Spending

The wealthiest 20% of U.S. households in 2005 spent an average of $807 on alcoholic beverages, more than three times what they spent on reading materials. They spent an average of $878 on fruits and vegetables, $5,044 on eating out, and $3,182 on gasoline and motor oil, according to the latest data from the U.S. Bureau of Labor Statistics.

How do your spending habits compare? It's a good question to ask, particularly now, with much higher energy prices, and the cost of living getting more expensive – the Consumer Price Index was 3.2% higher at year end 2006 compared with one year earlier. Even people with high incomes can have trouble budgeting in the wake of these factors and seek ways to slice their spending. The more you have, the more you tend to spend, unless you watch your purchasing habits and create a plan for saving. Here are some ideas for curbing your spending:

Find the gap. There's just no substitute for tracking expenses. Take a pad and pencil, or if you're more technologically inclined, use your Blackberry, and mark down what you spend and when you spend it. Two or three months of data may give you a rude awakening about where you're spending too much. You'll know precisely where you need to lighten up.

Envelope trick. For necessities such as food and supplies, and for regular discretionary spending on things such as going to the movies or dining out, put a budgeted amount of cash in an envelope at the beginning of each week. Label envelopes for all your major spending categories.

Pass up plastic. Only use your credit card when you absolutely must. It's easier to manage money on a cash budget.

Kill clutter. Do you belong to a club you rarely visit, or pay for cable TV you seldom watch? It's easy to get trapped into paying for things you don't need. For instance, some people pay thousands annually to keep their boats docked and ready to go. But they're too busy to actually get out on the water.

Make yourself happy. Maybe it's taking your mother on vacation, or putting in a hot tub. Planning to use your money for something that will make you happy can help curb the urge to splurge on less satisfying purchases. ●

How Do You Stack Up?

Pre-Tax Income	$147,737
Average Age	47.2
Meat, Poultry, Fish, & Eggs	$1,130
Dairy Products	$561
Food At Home	$5,007
Food Away From Home	$5,004
Fresh Fruits And Vegetables	$878
Alcoholic Beverages	$807
Food Total	$10,051
Housing	$28,006
Vehicle Purchases	$7,107
Gasoline & Motor Oil	$3,182
Other Vehicle Expenses	$4,257
Public Transportation	$1,145
Personal Care Products & Sevices	$1,005
Healthcare	$3,962
Life & Personal Insurance	$957
Education	$2,504
Entertainment	$5,009
Reading	$247
Pension & Social Security	$12,904

Here are income and selected spending categories for households in the top income quintile in 2005. Compare the percentage of your after-tax income you spend on the same items.

Source: U.S. Bureau of Labor Statistics

Economic Shifts

(Continued from page 1)

a bond ladder[1], a strategy in which you buy bonds with different maturities and reinvest at prevailing rates when short-term holdings mature, will help you minimize risks, but may not be ideal while interest rates remain low. In this environment, favor short-term bonds for more upside, less volatility, and less inflation risk than long-term bonds.

Be sure to examine bond holdings for hidden risks like mortgage-backed securities, bonds issued by shaky financial institutions, or paper that has been or is more likely to be downgraded. Even money market funds may now exhibit new risks.

6. Consider joining the gold rush. In late 2007, gold prices reached their highest level since the gold boom of 1980, and many experts expect a further rise. Investors typically turn to gold as a hedge against a weak dollar and rising inflation, but until recently, buying bullion or gold coins meant also having to pay storage and transportation fees. Now, exchange-traded funds[2] enable you to own gold without the hassle. Remember, the price of gold can be volatile and has already appreciated significantly. It is a good idea to wait for a price dip to buy, and limit your gold investment to a small percentage of your holdings. Diversified commodity funds are a less-risky alternative to buying gold directly.

7. Maximize tax benefits. This may be a year when some market losses are inevitable, but you can use them to help keep your tax bill in check. Capital gains and losses cancel each other out for tax purposes, and, if you lose more than you gain, you can use the excess to offset up to $3,000 of ordinary income in 2008.

We're ready to help you with strategies that could turn a bad year to your advantage. If you're nervous about the economic outlook and wonder whether you're on track to reach your financial goals, please give us a call. ●

1. All bonds, including Treasury bonds, fluctuate in value day-to-day. If sold prior to maturity, they may be worth more, less, or the same as your original investment.

2. You should consider an Exchange Trades Fund's investment objectives, risks, charges, and expenses carefully before you invest. The fund's prospectus contains this and other information about the fund and should be read carefully before investing. A prospectus may be obtained from your advisor or from the fund company directly.