

Beacon Financial Partners

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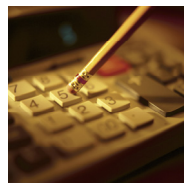
Ask the Experts

Beacon Financial Partners News

Brighter Financial Guidance

September, 2008

Why Work with a Financial Professional?



If you're like most people, you probably bring your automobile to a professional mechanic for routine maintenance. You see a doctor when you have concerns about your health, and for regular

exams. When the need for legal counsel arises, you consult an attorney. All of us rely on the expertise of others. It's no different when it comes to personal finances--most people could benefit from working with a financial professional. Here are some good reasons to do so:

You don't know what you don't know

No one can be an expert on every subject. Managing your finances on a day-to-day basis is one thing; implementing a comprehensive investment plan to fund your retirement while setting aside funds for your child's education is something else. That doesn't mean that you're not capable of doing it, only that you shouldn't underestimate the expertise needed to put together an effective plan. If you're going to go it alone, you'll need to educate yourself, and that brings us to the next point ...

You have good intentions, but never set aside the time

There's an entire industry built around providing individuals with the tools they need to do their own financial planning. Books, magazines, websites, calculators, worksheets, and videos all empower individuals to take a more active role in their financial future, whether they're working alone or with a financial professional. Not one of these tools, however, will help unless you set aside both the time to learn to use the tool, and the time to apply the tool to your own situation. Working with a financial professional forces you to stop procrastinating, and shifts the time commitment from you to the professional.

Doing it all yourself isn't efficient

There's a long list of things that we could do ourselves but choose to pay someone else to do for us instead. For example, you could paint your house, but you may be happy to pay someone else to do it. Why? It's more efficient. You can spend the time working on other things and, if you choose the right professional, it will probably be done faster and better than if you did it yourself. The same goes for working with a financial professional.

You're not objective

It's hard to look at your own situation objectively. Having someone else with experience analyze your financial condition can be extremely helpful. And, in cases where you and your spouse aren't on the same financial page, a financial professional can listen to all concerns, identify underlying issues, and help you find common ground.

Keeping up with change is a full-time job

In the last two years, there have been at least five major pieces of tax legislation signed into law. Even seasoned financial professionals have had a difficult time keeping up with the changes. Not understanding how these changes might affect your financial plan could be dangerous, but understanding the changes takes time and effort.

You see the trees, but not the forest

A good financial professional can help you see the big picture. He or she can show you how your financial goals are related--for example, how you might save for both your child's college education, as well as your own retirement. He or she can work with you to prioritize your goals, implement specific strategies, and choose suitable products or services. A financial professional can also stay on top of your plan to make sure it remains on track, recommending changes when conditions, or your circumstances, dictate.

Where to Stash Your Emergency Cash

Multiple choices

Many experts suggest having 3 to 6 months' income in your emergency fund. When planning how much to have and where to keep it, consider all your potential emergency resources, such as a health savings account, insurance, an emergency-only credit card, or a home equity line of credit. You may also be able to combine options--for example, an interest-bearing checking account that replaces a credit card for minor emergencies, plus a higher-yielding account for the rest of your emergency cash.



If you're contemplating putting your cash into a mutual fund, be sure to obtain and read its prospectus (available from the fund) so you can carefully consider its investment objectives, risks, charges, and expenses before investing.

A financial cushion can improve your ability to survive bad times, but right now that cash may be earning a relatively low interest rate. However, try to think of it as you might insurance: your emergency fund is designed to be there when you need it. Here are some possibilities that balance safety with liquidity:

Interest-bearing checking accounts

Deposit accounts are federally insured up to \$100,000, so they're as secure as it gets. Bank deposit balances are insured by the Federal Deposit Insurance Corporation (FDIC); credit union balances are insured by the National Credit Union Administration. Lower costs often permit higher yields on online accounts, and minimum balances for online accounts also are typically low. However, depending on the institution, your access with an online-only account may be somewhat less convenient than you're used to; for example, the number of deposits or check-writing privileges may be limited. An ATM/debit card linked to a checking account is convenient, but if the temptation to use it for a "retail emergency" proves too great, it could end up pulling the stuffing right out of your financial cushion.

High-yield savings accounts

Savings accounts typically offer higher interest rates than checking accounts. Again, some of the best rates may be available online. However, make sure you find out whether the yield quoted is an introductory rate and what minimum balance is required to get it. Also, some high-yield savings accounts require that a certain number of purchases be made using a linked credit or debit card--hardly appropriate for an emergencies-only fund.

Money market savings accounts

A money market savings account (MMA) may offer higher interest than a checking or even a regular savings account, but also may have some restrictions on access; for example, it may limit the number of transfers, withdrawals, or checks, and may require a higher minimum initial deposit or balance. (On the other hand, such constraints may force you to think twice before accessing that money without good cause.) MMAs generally invest in short-term commercial loans, CDs, and government securities.

Money market mutual funds

Money market mutual funds may offer higher

rates than checking or savings accounts. Even though they may invest in similar types of securities as money market savings accounts, don't confuse the two. An investment in a money market mutual fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the fund. If you're in a high tax bracket, consider municipal money market funds, which offer the federal tax advantages of muni bonds. A fund that concentrates on munis from your state also may offer state tax benefits.

Laddered cash equivalents

Certificates of deposit (CDs) or short-term Treasury bills provide less liquidity, but a laddering approach could improve your access while still limiting to some extent your ability to raid your fund without a good reason. For example, you might buy six CDs; the first CD matures in one month, the second in two months, the third in three months and so on up to six months. When the first CD matures, you could buy another six-month CD; you'd do the same with each succeeding CD at maturity. That would make some cash available once a month, and laddering lets you adapt to changing interest rates. A similar strategy could be used with short-term T-bills, available in maturities of 4, 13, 26, and 52 weeks. However, be aware that if you need to sell or cash in a CD early, you may have to pay a substantial penalty that could wipe out any incremental yield. In the case of a brokered CD sold before maturity, you also might suffer a loss. Also, interest rates could affect the value of a T-bill sold before it matures.

Short-term bond funds

Sometimes used as an alternative to a money market fund, short-term bond funds have typically offered higher yields with relatively modest increased risk (though they also are not FDIC-insured). However, recent credit market conditions have underscored their hazards. Short-term bond funds may be more stable than long-term funds, but some investors have been surprised at losses resulting from their fund's exposure during the past year's credit turmoil to investments considered relatively safe.

Whatever you use for your cash stash, have a plan for replenishing it after the emergency has passed.

Providing for Children of a Previous Marriage

For many married couples, when one spouse dies, all marital property passes to the surviving spouse. This means that the surviving spouse has sole responsibility for deciding what happens to that property when he or she dies. In the traditional family, this is rarely a concern. But, more and more often, the so-called traditional family is the exception, not the rule.

Remarriage can create unique estate planning concerns, especially if you want to provide for both your current spouse and your children from a previous marriage. In many cases, remarriage creates a situation of "yours, mine, and ours." Your spouse may not have developed a close relationship with the children from your previous marriage, and may feel very little responsibility toward them. If this describes your family situation, you need to take positive steps now to ensure that your estate is ultimately distributed according to your wishes.

Why the logical solution may not be the best solution

A logical plan would be to leave all your property to a trust, allowing your spouse to live in your home rent free and live on the income from trust assets for the rest of his or her life. Then, when he or she dies, the property would pass to your children. This plan, however, could result in conflict between your surviving spouse and your children because:

- Your children's investment objectives may not match your spouse's
- Your children may watch every penny your spouse spends
- Your children may essentially be waiting for your spouse to die

Fortunately, there are other solutions that sever the money connection that is the source of the conflict described above.

Use life insurance

Life insurance can be a particularly effective method of providing for children from a previous marriage, and you have several options. First, you can make your children beneficiaries of a life insurance policy that you own. Second, your children can purchase insurance policies on your life, and you can gift funds to pay the premiums. Third, you can establish an irrevocable trust to hold life insurance purchased for their benefit. This third option is especially appropriate if you have

minor children. In any case, your children are the beneficiaries of the life insurance policy, and you are guaranteed they will receive a certain amount of money when you die.

Name your children as beneficiaries of your retirement plan

Making your children the beneficiaries of your IRA or employer retirement plan is another way to provide for their needs after your death. Be aware, however, that you may need your spouse's written consent if you wish to name anyone other than your spouse as the beneficiary of certain types of retirement plans.

Create a postnuptial agreement

Postnuptial agreements aren't right for everyone, but they can help eliminate conflicts between your spouse and your children from a previous marriage. The agreement is a written contract between you and your spouse that states how property will be owned and distributed during the marriage, in the event of divorce, and at death.

Make your children joint owners

Giving your children joint ownership of property during your life will ensure that they receive that property upon your death. However, there are risks associated with this strategy. As joint owners, your children may have unlimited access to the property, meaning they would have the right to sell the property and use the proceeds for their own benefit. Also, the jointly owned property could be in jeopardy from your children's creditors if your children run into financial difficulties, or they get divorced.

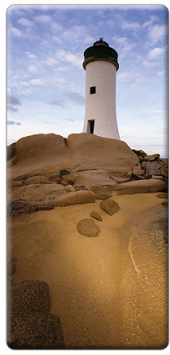
Leave your surviving spouse a lump sum

Consider leaving your surviving spouse a lump sum and dividing the remainder of your property among your children. Or conversely, leave a lump sum to your children and the remainder to your spouse. While this seems like a simple approach, there are instances when it can be very effective, especially if you have a relatively small estate.

It is important to note that there are income tax as well as estate and gift tax considerations associated with many of the options mentioned. See an experienced estate planning attorney for more guidance.



In almost every state, you're prohibited from completely disinheriting your spouse, who is typically given a statutory right of election. That allows him or her to claim a certain percentage of your estate.



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Ask the Experts



What's a credit score and why should I care about it?

Your credit score is the result of a mathematical formula that's applied to all the information in your credit report (both positive and negative) and then compared to millions of other credit reports. The most common credit score is a FICO score, developed by the Fair Isaac Corporation. A variation of the basic FICO model is used by each of the three major credit reporting agencies: Equifax, Experian, and TransUnion.

Your FICO score is based on five categories, each of which accounts for a percentage of your total score:

- Your payment history: 35%
- An analysis of your debt: 30%
- The length of your credit history: 15%
- Recent inquiries/new credit activity: 10%
- Types of credit in use: 10%

The result is a three-digit number between 300 and 850 that estimates your level of credit

risk. The higher the number, the lower the risk.

This number significantly affects your ability to get credit and the terms you're offered. Generally, lenders consider people with scores above 700 to be in good financial health, and worthy of the best interest rates and credit terms. Those with scores below 600 are considered to be financially risky, and may be turned down for credit or offered stricter terms (higher interest rates, lower credit limits, and/or requirements for collateral or a cosigner or both).

To keep your score high:

- Pay your bills on time
- Repair any damage (i.e., overdue payments) as quickly as possible
- Keep your balances on your credit cards low (especially in relation to your credit limits)
- Pay off your debt
- Don't open new accounts you don't need

How do I dispute an unsatisfactory credit card purchase?

If you used a credit card to make what turns out to be an unsatisfactory purchase, you should first seek a refund or a replacement from the merchant that sold you the item. But if you have no luck there, you may have some recourse through the credit card company.

There are some requirements. First, you must have used the credit card to purchase the merchandise for personal (not business) use. Second, if you've already paid the credit card bill on which the sale is listed, the credit card company generally won't help you.

Additionally, the unsatisfactory purchase must have been made either with a charge card issued by the merchant or with a bank's card. If the item was not purchased with the merchant's own card, then the item must cost \$50 or more.

Further, unless you used the merchant's own card, the purchase must also have occurred within your home state or within 100 miles of your billing address. Catalogue sales, Internet sales, and orders placed by telephone may be

considered in-state purchases. State laws may vary, but these purchases are generally protected.

If you're unable to resolve the matter with the merchant, be sure to write the credit card company within 60 days of when the charge first appeared on your statement. Include in your letter your name, account number, information about the unsatisfactory item, and what you've done to try to resolve the matter with the seller.

The card issuer will usually investigate the matter, and you may withhold payment on the unsatisfactory merchandise until the matter is resolved. (Until then, no interest or late fees will be charged.) If the investigation reveals you are right and the merchant is at fault, you won't have to pay for the item or any finance charges on it. However, if the card issuer doesn't believe the merchant is at fault, you'll be expected to pay for the item. If you want to continue the dispute with the merchant, you'll have to do so in court.