FINANCIAL DECISION PARTNERS

Financial Planning & Investment Management

Financial Decision Partners

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How to Improve Your Credit Score

Repairing bad credit is not quite as simple as repairing your car or a broken vase. It can take years for your credit score to bounce back from a delinquency or default. And without a good credit score, you can find yourself fielding rejection notices when you apply for a loan or credit card. Or you could have to pay a significantly higher interest rate to borrow than someone with a higher score.

Why is your credit score so important? It's the number (usually between 300 and 850) that lenders use to gauge how likely you are to repay debts on time. It is derived from information compiled in a credit report -- including your payment history, the amount you owe creditors compared with the amount of credit that is available to you, and the extent of your credit history. Generally speaking, the higher your score, the lower your perceived risk to lenders.

Know Your Number

Before launching a campaign to raise your credit score, know what you are shooting for. Get a current copy of your credit report and review it for accuracy. All consumers are entitled to free annual credit reports from the major credit reporting agencies, Experian, Equifax, and TransUnion. You can request all three reports at www.AnnualCreditReport.com. Unlike credit reports, your credit score is not free. You can purchase your score from one of the above-mentioned agencies or from www.myFICO.com.

Room for Improvement

Here are four tips for raising or maintaining a higher credit score.

1. **Pay your accounts on time and keep your monthly balances low.** Lenders are looking for a proven track record of making timely payments. Payment history determines about 35% of your credit score.
2. **Be conservative in the amount of available credit you use at any given time.** About 30% of your score is determined by what the industry refers to as your "utilization ratio," which is the amount you owe in relation to the amount of credit available to you. If that percentage is more than 50%, it will have a negative impact on your score.
3. **Hold on to older, unused accounts.** While it seems counterintuitive to hold on to accounts you no longer use, keeping an older credit card or bank account open actually can work to your advantage. The longer an account has been open and managed successfully, the higher your score will be.
4. **Maintain a diversified credit mix.** If you hold an auto loan, a home mortgage, and credit cards that are well managed, you will generally have a higher credit score than someone whose credit consists mainly of finance companies.

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Understanding 529 Plan Distributions

Parents looking to take advantage of the many benefits of saving for college with a 529 plan will want to know the full details on which educational expenses qualify for tax-free distribution status -- and which do not.[1] In Publication 970, the IRS gives detailed guidance on qualified expenses. Here are a few important points.

What's Covered

- Tuition and fees are covered in full.
- Room and board, if the student is enrolled at least half time. But such expense must be not more than the greater of (1) the allowance for room and board, as determined by the school, that was included in the cost of attendance; or (2) the actual amount charged if the student is residing in housing owned or operated by the school.
- Food. If you spend a certain amount for a meal plan, that entire amount can be deducted, even if used for coffee or ice cream and not a full meal. Weekend meals can also be included if the dining halls are not open.
- Books and supplies. Any fees associated with purchasing school textbooks are considered qualified, as are required equipment or supplies such as notebooks and writing tools.
- Computers/laptops, but only if required by the school. If required, Internet fees and PDAs or "smart phones" may also qualify.
- Special-needs services required by special-needs students that are incurred in connection with enrollment or attendance at school.

What's Not Covered

- Student loans. Interest on or repayment of student loans is not considered a qualified expense by the IRS.
- Insurance, sports or club activity fees, and many other types of fees that may be charged to students but are not required as a condition of enrollment.
- Transportation to and from school.
- Concert tickets or other entertainment costs, unless attendance is requisite to a course or curriculum.

Note that expenses must apply to a qualified college, university, or vocational school for post-secondary educational expenses. Also keep in mind that taxes and a possible 10% penalty will apply to all distributions that are not considered qualified educational expenses by the IRS, so be sure to check first.

When tapping your 529 account, be sure to avoid taking too much or too little.

- **If you take too much:** The excess will be classified as a nonqualified distribution. You or your beneficiary will have to report taxable income and pay a 10% federal penalty tax on the earnings portion of the nonqualified distribution. The principal portion is not subject to tax or penalty.
- **If you take too little:** If your child graduates and does not attend post-graduate school -- or if you do not have another child you can change the beneficiary designation to -- you'll be left with a 529 account that, if used for any other purpose, will incur tax and a 10% penalty. If you have a substantial balance left in your 529 account, consider tapping the account at the earliest tax-free opportunity.

Also be sure to coordinate with other family members who may have funded 529 plans for your child to help determine which accounts should be used first.

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This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

Source/Disclaimer:
[1]Investing in 529 plans involves risk, including loss of principal. By investing in a 529 plan outside of the state in which you pay taxes, you may lose the tax benefits offered by that state's plan. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary.

Before you invest in a 529 plan, request the plan's official statement and read it carefully. The official statement contains more complete information, including investment objectives, charges, expenses, and the risks of investing in a 529 plan, which you should carefully consider before investing. You should also consider whether your home state or your beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's 529 plan. Section 529 plans are not guaranteed by any state or federal agency.

Alternative Investments: Diversification Potential

Prolonged stock market volatility has caused many investors to question how much of their portfolios should be allocated to equities. The world of investing isn't solely about stocks and bonds. There are alternative investments, which may provide ways to diversify your portfolio and potentially maximize your portfolio's risk-adjusted return.[1]

Alternative investments can help protect purchasing power, acting as a hedge against inflation. Additionally, they tend to have very low correlations with stocks and bonds. However, it's just as important to understand that alternative investments also come with risks.

Alternative investments take many forms. Here is a look at several common investment types.

Commodities[2]
These investments include metals such as gold or silver, oil, and agricultural products. The advantage of commodities is that they exhibit a low correlation to both equities and bonds. Consequently, when the stock market is experiencing weakness, commodities tend to hold their own. However, commodity prices are volatile, thus there is more risk. In the case of gold or silver, there are dealers who trade these precious metals. If you take physical possession of gold or silver, you will need to arrange for storage and insurance. Because many investors do not want to make these arrangements, exchange-traded funds (ETFs) have become a popular and much simpler way to access commodities.

Hedge Funds[3]
The term hedge fund is a catch-all phrase describing funds that follow aggressive investment strategies such as intensive use of derivatives, selling short, and proprietary computerized trading. Hedge funds typically are engineered to seek a more favorable risk-adjusted return than their investors might obtain from a fund that follows a market benchmark. By law, hedge funds are restricted to a low and limited number of accredited investors and are primarily organized as limited partnerships. As a result, the vast majority of hedge funds target institutions and wealthy individuals.

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Private Equity
Major categories of private equity include venture capital, leveraged buyouts, managed buyouts, and mezzanine financing. Investors participate in private markets through collective investment vehicles such as partnerships that actively manage the investment assets on the investors' behalf. Once a particular partnership has reached its target size, the partnership is closed to new investors, including new funds from existing investors. Private equity firms frequently require investors to make commitments ranging from $5 million to $10 million or more. Successful investing in this area requires the ability to assess complex financial structures, assume outsized risk in pursuit of superior reward, and tolerate extended periods of illiquidity.

All investing involves risk, including loss of principal; and alternative investments by themselves can be highly volatile. But when used in combination with stocks or other assets, they may help to smooth out long-term returns and provide an alternative when stock returns are choppy.

Source/Disclaimer:
[1]There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure a profit or protect against a loss.

[2]Exposure to the commodities market may subject investors to greater volatility as commodity-linked investments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity.

[3]Hedge funds often engage in speculative investment practices that may increase the risk of investment loss. Hedge funds can be highly illiquid; are not required to provide periodic pricing or valuation information to investors; may involve complex tax structures and delays in distributing important tax information; are not subject to the same regulatory requirements as mutual funds; and often charge high fees.

Target-Date Funds: Are They Right for You?

Target-date funds provide investors with the ability to simplify their financial and investment lives.[1] With target-date funds, your portfolio's asset allocation is automatically rebalanced on your behalf over the years by professional investment managers, generally growing more conservative as the identified target date approaches.

Unlike lifestyle funds, target-date funds do not require investors to reassess their priorities and transfer money to a different fund as goals approach and priorities change. Generally speaking, the name of each target-date fund includes a specific year, such as "2030" or "2045." All you need to do is choose a fund named for the year closest to the year of your projected retirement. From that point on, professional investment managers make all the investment decisions.

Understanding the Investment Strategy
Target-date investments follow what is known as a "glide path." The glide path maps out the investment's asset allocation over time -- the way it is divided between the principal asset classes of stocks, bonds, and cash. How your assets are allocated among these investments is a major factor in determining portfolio volatility and risk.[2] As you approach retirement, a target-date investment typically reduces its holdings of stocks, while increasing its exposure to less risky bonds and cash. Target-date investments provide investors with instant diversification into different asset classes.[2]

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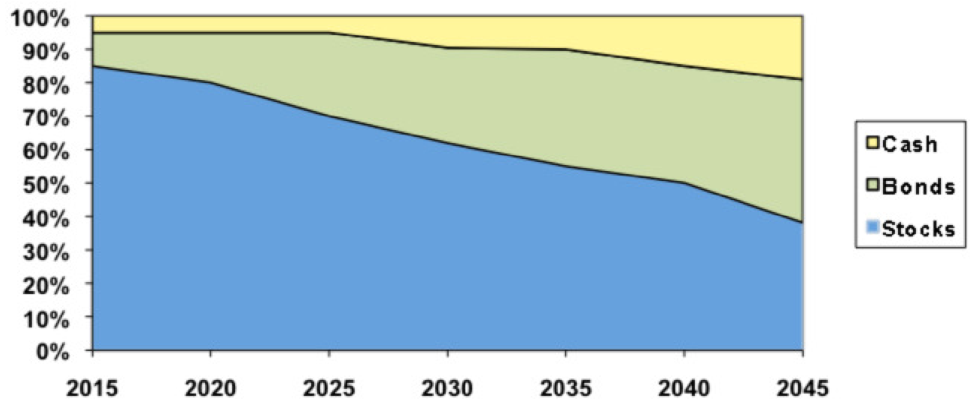
Target-Date Glide Path Hypothetical Chart[3]



The illustration above shows you the glide path of a hypothetical 2045 target-date investment. Note how it begins investing primarily in stocks, then, over time, gradually decreases its stock component and increases its bond and cash components.

A target-date investment's goal is to make the investing process simple. This "set it and forget it" style also makes investors less likely to allow short-term market fluctuations to adversely affect their investment decisions.

A "New Generation" of Target-Date Investments
The principal value of many target-date investments cannot be guaranteed at any time, including the target date, and may decline at any time. However, there are newer models that offer a way to protect all or some of your portfolio from market declines. These newer options are often tied to a feature that offers a lifetime income guarantee upon retirement.
Target-date options may be ideal investments for those participants who have a long time horizon and for those who don't feel comfortable investing on their own. Be sure to review the glide paths of the target-date investments offered through your plan. If you have any questions, ask your plan administrator or financial professional.

Source/Disclaimer:
[1]The principal value of target-date funds is not guaranteed at any time, and you may experience losses, including losses near, at, or after the target date, which is the approximate date when investors reach age 65. The funds emphasize potential capital appreciation during the early phases of retirement asset accumulation, balance the need for appreciation with the need for income as retirement approaches, and focus more on income and principal stability during retirement. There is no guarantee that the funds will provide adequate income at and through your retirement.
Target-date funds invest in a broad range of underlying mutual funds that include stocks and bonds and are subject to the risks of different areas of the market. Target-date funds maintain a substantial allocation to stocks both prior to and after the target date, which can result in greater volatility. The more a target-date fund allocates to stock funds, the greater the expected risk. For further details on the risks associated with investment in a target-date fund, please refer to the fund's prospectus.

[2]Asset allocation and diversification do not ensure a profit or protect against a loss.

[3]Source: S&P Capital IQ Financial Communications. Example is hypothetical and does not represent any specific target-date investment.

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