

The Financial Edge

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Investment Planning— Handling Market Volatility

Conventional wisdom says that what goes up, must come down. But even if you view market volatility as a normal occurrence, it can be tough to handle when its your money at stake. Though there's no fool-proof way to handle the ups and downs of the stock market, the following common sense tips can help.

Don't Put Your Eggs in One Basket—

Diversifying your investment portfolio is one of the key ways you can handle market volatility. Because asset classes typically perform differently under different market conditions, spreading your assets across a variety of investments such as stocks, bonds, and cash equivalents has the potential to help reduce your overall risk.

Focus on the Forest Not the Trees—

As the market goes up and down, it's easy to become too focused on day-to-day returns. Instead, keep your eyes on your long-term investing goals and your overall portfolio. Although only you can decide how much investment risk you can handle, if you still have years to invest, don't overestimate the effect of short-term price fluctuations on your portfolio.

Look Before You Leap

When the market goes down and investment losses pile up, you may be tempted to pull out of the stock market altogether and look for less volatile investments. The small returns that typically accompany low-risk investments may seem attractive when more risky investments are posting negative returns.

But before you leap into a different investment strategy, make sure you are doing it for the right reasons. How you choose to invest your money should be consistent with your goals and time horizon.

Look for the Silver Lining—

A down market, like every cloud, has a silver lining. The silver lining of a down market is the opportunity you have to buy shares of stock at lower prices. One of the ways you can do this is by using dollar cost averaging. With dollar cost averaging, you don't try to "time the market" by buying shares at the moment when the price is lowest. In fact, you don't worry about price at all. Instead, you invest money at regular intervals over time. When the price is higher, your investment dollars buy fewer shares of stock, but when the price is lower, the same dollar amount will buy you more shares.

Don't Stick Your Head in the Sand—

While focusing too much on short-term gains or losses is unwise, so is ignoring your investments. You should check up on your portfolio at least once a year, more frequently if the market is particularly volatile or when there have been significant changes in your life. You may need to rebalance your portfolio to bring it back in line with your investment goals and risk tolerance. A financial professional can help you decide which investment options are right for you.

(Source: Sales Jive)

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While investing, have a plan, stick with it, and strike a comfortable balance between risk and return.

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Quotes From the Masters

- Excellence is the gradual result of always striving to do better.

-Pat Riley

The greatest achievement is to outperform yourself.

-Denis Waitley

The truth of the matter is that you always know the right thing to do. The hard part is doing it.

-Norman Schwarzkopf

Hope is the thing with feathers... that perches in the soul and sings the tune without the words, and never stops at all.

-Emily Dickenson

Listen now to the gentle whispers of hope.

-Charles D. Brodhead

Most people are too busy living life to ever put life in their living.

-Doug Firebaugh

Sophistication and lifestyle is understanding the difference between trinkets and treasures.

-Jim Rohn

I think the one lesson I have learned is that there is no substitute for paying attention.

-Diane Sawyer

Live your beliefs and you can turn the world around.

-Henry David Thoreau

A Growing Concern For Americans

One in three Americans say that they are concerned that they will someday need to declare bankruptcy due to unexpected medical bills. Additionally, 89% of Americans say the rising cost of health care is among the most pressing concerns facing Americans today. People believe that increasing health care costs in the United States have a significant impact on Americans' everyday lives, forcing many people to delay medical care or tap into their savings to pay expenses. Increasing costs in health care are forcing many Americans to go without care. The number of Americans with major medical insurance has decreased compared to one year ago,

dropping from 81% in 2005 to 74% in 2006. And the perils of being uninsured are apparent.

The threat of financial strain and even bankruptcy due to medical costs is a legitimate concern for many Americans. 82% of Americans believe that they will need to dip into their savings to cover health care costs. 80% believe that growing medical and health care expenses will make retirement living less comfortable in the future. Although Americans seem to know the steps they should take to prepare for an unexpected medical emergency, few actually follow the advice, causing a gap between belief and actual behavior. 83% of Americans believe they

should put aside money specifically to cover health care expenses. Only 37% actually do that.

Individuals caring for both aging and young generations face many daunting scenarios, such as caring for a spouse or partner, an aging parent, a sick child, or in the most difficult situations, more than one at once. The wages missed place an even bigger financial strain on the caretaker.

(Source: Health Marketplace)

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“Your need is our opportunity.”



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Insurance and Investment Consultants was incorporated in 1970. Prior to that, the principle stockholder, Walter G. Barnes, had been in the financial services business as a sole proprietor since 1962. Therefore, we have been offering financial services to clients throughout Alabama, as well many other parts of the nation, for over forty years.

We are an independent brokerage agency representing many insurance companies and are free to select from any of these companies the appropriate plan or product that best meets the needs of our clients. We offer a full range of life and health insurance, as well as investments that include mutual funds and variable annuities.

Our pledge to you is - *“In all my relations with clients I agree to observe and follow the following rule of professional conduct: “I shall, in the light of all circumstances surrounding my clients, which I shall make every conscientious effort to ascertain and to understand, give them that service which, had I been in the same circumstances, I would have applied to myself.”*

- Society of Financial Service Professionals

Newsletter Editor - Randy Barnes, Vice President

Preserve Your Assets for Your Heirs by Bypassing the Estate Tax

No one would want the assets they've worked their entire life to build to be dwindled away needlessly when they die. Unfortunately, this is exactly what happens for many people, mainly because they don't create a smart estate plan.

Life Insurance and Estate Tax

Estates are taxed based on their net worth, in other words the amount you own minus the amount you owe. Contributions to qualifying charitable organizations, funeral expenses, and administrative expenses of the estate can also be deducted from your estate's net worth. While the estate tax currently only applies to estates with a net worth more than \$1.5 million, once you add up the values of your home, bank accounts, IRAs and personal possessions plus the death benefit of a life insurance policy, and then consider how those assets will grow over time, many people unknowingly exceed the \$1.5 million threshold, or will eventually.

The estate tax, which starts at a hefty 45 percent rate, can slice into your family's inheritance. A straightforward will alone could result in huge tax liabilities. While you are allowed to leave an unlimited

amount to your surviving spouse, your estate will eventually be fully taxed upon the spouse's death. Luckily there are some effective strategies that can minimize the tax burden:

Bypass Trust

Up to \$1.5 million can escape taxation through a bypass trust, also known as a credit shelter trust or exemption trust. The donor places assets into the trust, sets the rules regarding the management and distribution of money, names trustee(s) who are responsible for following those guidelines and names one or more beneficiaries.

The spouse can be named as the primary beneficiary and the children as secondary beneficiaries. The donor can dictate that the beneficiary receives both income and principal from the trust for needs related to maintenance, education, support and health. This type of trust is only for married couples and United States' citizens.

Insurance Trusts

An Irrevocable Life Insurance Trust provides an additional way to minimize estate tax and is often used in conjunction with a Bypass Trust for excess assets. A married couple can establish and fund the

trust, naming their children as both trustees and beneficiaries. The trustees use the trust fund to buy a special form of life insurance called a survivorship life policy. The policy insures the lives of the donors but is owned by the trust and the trust is the beneficiary.

The value of the policy is set to equal the anticipated cost of estate taxes so that after both donors die and the estate taxes become due the trustees can pay the taxes from the insurance policy proceeds rather than the estate itself. The cost of this strategy is the insurance premium which is significantly less than the estate tax.

One catch is that if you were to die within three years of establishing the trust, the IRS would be concerned that you transferred assets in "contemplation of death," and then your estate would be taxed on the value of the death benefit.

Estate Tax Demise

Currently the estate tax is scheduled to phase out by 2010. Each year until then the \$1.5 million exemption limit will be increased. Don't risk your hard earned assets on the phaseout, because the estate tax could be back in 2011 with a lower \$1 million limit if Congress doesn't act explic-

million limit if Congress doesn't act explicitly to extend the repeal.

Be sure to seek the advice of a qualified legal and/or tax professional before final decisions are made concerning your estate planning.

(Source: Sale Jive)

For more information on estate tax planning contact us by fax or mail or visit us at—

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Don't lose the assets you've worked for. Create a smart estate plan!