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**MENTOR**
C A P I T A L

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Mentor Monthly Missive

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“Cash for Clunkers” program still going

The U.S. government’s CAR Allowance Rebate System (“CARS”) was recently created to increase auto sales and put safer, cleaner, and more fuel-efficient vehicles on our roads. This program allows consumers to trade in an older, less fuel-efficient car or truck and buy or lease a new vehicle with the help of a \$3,500 or \$4,500 discount from the dealer.

Numerous requirements must be met to comply with the program’s requirements, which are detailed at www.cars.gov.

The program applies to purchases made starting July 1st of this year and ends on the earlier of November 1st or when the program’s funds are used up. Consumer demand for this program was so great that its allotted \$1 billion was quickly scarfed up, so Congress has approved an additional \$2 billion that is expected to last until at least Labor Day.

The amount of the credit generally depends on the type of vehicle purchased and the difference in fuel economy between the purchased vehicle and the trade-in vehicle. Different requirements apply for work trucks and cargo vans.

The new car dealer applies the credit to the purchase or lease price of the new vehicle and also must apply any advertised rebates or discounts, including those offered by the manufacturer. The dealer must also disclose to the buyer an estimate of the trade-in vehicle’s scrap value; any such value exceeding \$50 must also be applied to the new vehicle’s purchase price.

Some news reports have mentioned that “Cash for Clunkers” is driving up new car prices – in part because dealers are offering fewer and lower discounts – so, as always, “buyer beware” when considering whether to take advantage of this program.



Reverse mortgages: Know what you’re getting into

Many older Americans nearing or already in retirement will find out – if they haven’t already – that they should have done a better job of saving over the years. This lack of adequate retirement savings will tempt many people to tap into the equity in their homes for much-needed cash. One way to do this is by taking out a **reverse mortgage** on their homes.

A reverse mortgage might sound like a great idea, but it’s important to understand the requirements, risks and costs before signing on the dotted line.

Here are some basic facts about reverse mortgages:

- You must be at least 62 years old and have sufficient equity in your home to qualify.
- You borrow money from a lender (lump sum, fixed monthly payments, or line of credit) and generally don't have to repay the loan as long as you continue living in your current home. Interest on the amount borrowed accumulates until the loan is repaid.
- The loan must be repaid when you die, sell your home, or the home is no longer your primary residence, with some exceptions. Until then, no loan repayments are required.
- You retain ownership of your home.
- Proceeds are usually tax-free with no income restrictions.

The most common reverse mortgages are called Home Equity Conversion Mortgages (HECMs) and are backed by the U.S. Department of Housing and Urban Development. Reverse mortgages are also offered by some state and local governments, non-profit organizations, banks and private lenders. Some reverse mortgages stipulate that the money must be used for a specific purpose, such as repairs or improvements.

Be aware of the following, though, before deciding whether to obtain a reverse mortgage:

- **Fees and other costs.** Origination fees, mortgage insurance premiums, other closing costs, and ongoing service fees can add up – sometimes to the tune of more than 10% of the loan amount.
- **Increasing loan balances.** Interest accrues on the amount borrowed and is added to the principal balance.
- **Variable interest rates.** Most reverse mortgages charge variable interest rates that are tied to a specific index, so rates could significantly rise during the loan period.
- **Affect on eligibility for entitlement programs.** Reverse mortgage proceeds are considered an asset of the borrower, possibly resulting in the borrower becoming ineligible for programs such as Medicaid.
- **Repayment risk.** The loan balance generally becomes due when the borrower moves out of the home...for example, into a nursing home. This might force the borrower to sell his or her home to pay off the loan.

It's very important to shop around, and to know the fine print, when considering a reverse mortgage. If you are unsure of your ability to make a proper decision and avoid caving into sales pressure, seek the advice of a trusted advisor.



Still sitting on cash?

Many investors put all or most of their portfolios into cash during the huge stock market declines of late last year and early this year, and are still sitting on that cash – either because they haven't paid attention to that fact or are afraid or unsure of getting back into the stock market.

Are you one of those people? If so, you've missed out (at least so far) on a significant chance to recover a good portion of what you might have lost before going to cash. From the stock market's recent lows of March 9th through August 12th, here are the returns (including reinvestment of dividends) of three major stock market indices:

S&P 500 (U.S. large companies)	50.2%
Russell 2000 (U.S. small companies)	67.8%
MSCI EAFE (foreign companies)	62.0%

We're not saying that the stock market will keep rising. We've seen temporary, brief bull markets in the midst of

long bear markets before. Nobody can know for sure whether the markets will continue to rise in the near future, regress toward the lows seen earlier this year, or take a breather for a while.

Many investors are confused, afraid, and uncertain of what they should be doing with their portfolios. Those who went entirely, or mostly, to cash at or near the stock market's recent lows have no idea of what to do with their retirement savings and have no idea whether they are on track to meet their retirement goals.

Now, more than ever, many people would greatly benefit from working with a trusted financial planner, one who is paid for his or her advice rather than for the sale of financial products. If you are uncertain of what to do with your investments and/or know that it's time to take a serious look at your retirement plans, we hope you'll give us a call.



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