

Don't buy a tax liability

This time of year can be a dangerous one for mutual fund investors.

It's distribution time – when mutual funds pay out some of their largest taxable distributions of income and capital gains during the year.

If you're buying mutual funds in a taxable account, these distributions are taxable to you, whether you reinvest them in new shares or let them

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Medicare drug benefit revisited

If you enrolled in Medicare Part D, the Drug Benefit plan, for 2006 and thought you were all set, think again. Open enrollment for 2007 runs from Nov. 15 through Dec. 31, 2006. Although you can stay in your current plan without going through the enrollment process again, you are strongly



advised to review your coverage. Most plans will be changing their costs, coverages, deductibles and copays for next year and a different plan may be more cost-effective. You can also expect to find new companies in the game

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Should you pay down your home mortgage?

One question that we are frequently asked by our clients at Mentor is whether or not it makes sense to accelerate mortgage payments in order to pay off the loan sooner. This is not as simple as it may seem.

Usually we need to answer this question with a few questions of our own. For example:

Does your lender allow prepayments? Sometimes the answer is no, or the fees charged make the prospect unpalatable.

Can you afford to part with the additional money? Do you have an adequate reserve fund in case of emergency. There is no sense in having lots of equity in your house if you are not prepared for unexpected emergencies that require ready cash. (Note that if you have already established a home equity line of credit you may not need as large an emergency fund.)

If you didn't pay this extra amount, what would or could you do with the money? If you carry a high interest rate credit card balance or other loan it's usually better to pay those off first, especially since they are not tax deductible.

On the other hand, if the mortgage is your only debt you may still be able to invest the money more profitably elsewhere, for example in a higher-yielding CD or a tax-sheltered retirement account. The decision will depend on your mortgage interest rate and whether it's fixed or variable, your tax bracket and whether or not you itemize your deductions.

Perhaps most important is the psychological question about how strongly you feel about owning your house free and clear. Especially with older, more conservative clients this factor may outweigh the financial downside of the paydown.



In the final analysis, both financial calculations and a personal assessment are necessary to make the decision. At Mentor we can help you weigh the hard dollar calculations, but the personal part of the equation is up to you.

Mentor unveils new web site

Mentor Capital Management recently published its professionally-redesigned web site. In addition to a cleaner look that is easier to navigate and incorporates our new logo, the educational section has been greatly expanded. All back issues of *Financial Planning News* are now available for viewing and download. The address of the site remains the same as before:

www.mentoradvisers.com.

How to get a CLUE

By now, most people who are smart about personal money management are checking their free credit reports three times a year.

There's another free report that consumers will want to check each year, the CLUE (Comprehensive Loss Underwriting Exchange) report. The report will list all your automobile and property insurance claims. It's important that this record be accurate, because insurers use your claim history to set rates.

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Tax liability

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go to cash. Investing a large amount (say \$1,000 or more) in a mutual fund just before a big distribution is a bad move. You pay tax on the distribution but get no real benefit from it.

Before investing toward the end of the year, smart investors check with the fund company to determine whether they're buying a tax liability. If the distribution will be more than 5%, it's probably better to wait until on or after the fund's "ex-date" to buy your shares.

This year is expected to be worse in this respect than the past few years. After the dot-com bubble burst in 2000-2001 many funds had years worth of capital losses to carry forward, which reduced or eliminated the capital gains distributions that they were forced to pass on to investors.

Now, many funds have used up their losses and can no longer offset their gains.

Some of the most tax-efficient funds are ETFs and index mutual funds, since, due to their nature, their portfolios have less turnover. However, even some actively managed mutual funds are efficient, because they strive always to offset gains with losses.

If you are considering buying a mutual fund in a taxable account, it's a good idea first to check the fund's tax efficiency.

Medicare Part D

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– in Illinois the number of plans increase from 42 in 2006 to 56 in 2007. There is no penalty for switching plans during this enrollment window.

If you are currently enrolled you should have received a letter from your carrier detailing any changes. Read this letter carefully.

Your next step should be to collect

all of the information for the prescription drugs you take regularly – drug name, dosage, how often you take them and whether they are generic or not. You should then go to the Medicare website, www.medicare.gov, and enter this information. You will be provided a list of carriers and how much you can expect to pay. For more user-friendly step-by-step instructions visit the AARP web site at www.aarp.org/bulletin/quick_route.html

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