

As Congress fiddles, taxpayers get burned

Posturing over the war in Iraq, running for re-election and, yes, commissioning a special study of the life of Cesar Chavez (H.R.359) have distracted our representatives this year from fixing the tax code.

We're still facing uncertainty about the estate tax and the alternative minimum tax. As well, numerous important tax provisions are scheduled to expire at the end of 2007 (see sidebar).

Meanwhile, House members are busy proposing legislation such as H.R. 954, to designate a postal facility in New York City as the Percy Sutton Post Office Building.

Uncertainty makes it very difficult for taxpayers to plan. The portion of the tax code relating to the estate tax, for example, provides for a gradual phaseout of the tax in 2010, then a return to a \$1

million exemption in 2011.

The alternative minimum tax is expected to snare 25 million taxpayers this year, up from 6 million in 2006. This was never the intention of the tax; it was put into place to stop wealthy people from avoiding taxes. Unless Congress acts before year-end to raise the exemption from the tax, a lot of middle-income taxpayers will be hit with substantially larger tax bills for 2007.

Of course, we understand that taxes are not everything - Cesar Chavez and Percy Sutton have their places in history. But we sincerely hope that Congress will see fit by the end of the year to tackle the important issues that have put question marks in taxpayers' financial planning.

Too, we understand Congress' desire to use the tax code as a tool to engage in social engineering - the mortgage-inter-

Tax breaks expiring this year

Without action by Congress by Dec. 31 to extend them, the following tax deductions are scheduled to shuffle off into history:

- State and local sales taxes;
- Charitable gift of IRA assets;
- Mortgage insurance;
- Higher-education tuition, fees;
- Energy-efficiency home improvements.

est deduction to foster home ownership, for example, or the child tax credit to ease the burden on parents. But once the decision is made to use the tool, it should be wielded responsibly. That means eliminating uncertainty for taxpayers and financial planners, not increasing it.

How to avoid 13 financial boo-boos

Life is just as much avoiding mistakes as it is making sound decisions, and it's no different where personal finance is concerned. We have choices to make (sometimes a dizzying number!), and we must do our best to make the right ones.

Here are some financial boo-boos to avoid:

Boo-boo #1 - Thinking that you can't afford to save. I say that you can't afford not to save. Just cutting out your morning cappuccino can put \$20 a week or more in the bank for you, help you to accumulate capital and improve goal achievement.

Boo-boo #2 - Using "ball park" figures when considering financial needs. For example, buying six times salary in life insurance, or assuming that you need 70% of your current income to retire. Everyone's situation is different, and failure to consider the particulars of your own can be a major mistake.

Boo-boo #3 - Having too much equity locked up in your house. The financial benefits of holding a mortgage - leverage, tax deductions and liquidity - cannot be overstated. I believe a homeowner should have the largest mortgage on which he can afford to make payments, and a line of credit to tap equity up to 80% of the home's value.

The next five boo-boos have to do with taxes - a virtual snake pit of potential mistakes:

Boo-boo #4 - Withholding too much income tax from your wages, in effect giving Uncle Sam an interest-free loan. Plan now for your 2008 liability, and have that amount withheld.

Boo-boo #5 - Using tax-free investments when, for a person in

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More confusion for investors

It's been difficult for investors to understand the differences between financial advisors - for example, which ones have fiduciary responsibilities, and which ones don't? Who regulates which types of advisors?

The name of a new organization might muddy the waters even more. The NASD will join forces with NYSE Regulation (a subsidiary of the New York Stock Exchange) to form what will be called the Financial Industry Regulatory Authority (FINRA). While FINRA will oversee all broker-dealer firms and their representatives, it will not regulate Registered Investment Advisors (i.e. Mentor Capital), who will continue to be regulated by the SEC and state securities regulators.

Our concern lies with FINRA's name, which implies broader financial industry oversight. As a result, investors might have the impression that FINRA protects the public in all areas of financial services, including those where it has no oversight authority.

The bottom line is that financial planners (for example, Mentor Capital) - having to register as investment advisors - will not be regulated by FINRA and will continue to be held to a fiduciary standard that puts clients' interests first. Stockbrokers and other such "advisors" will be regulated by FINRA and are held to a lower standard that does not require a fiduciary responsibility.

How to avoid 13 financial boo-boos

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your tax bracket, the return on taxable investments would be higher. Consider your tax bracket and the yield on the taxable investment relative to the equivalent yield of the tax-free one.

Boo-boo #6 – Using taxable investments when, for a person in your tax bracket, the return on tax-free investments would be higher. Again, consider your tax bracket and the yield on the tax-free investment relative to the equivalent yield of the taxable one.

Boo-boo #7 – Failure to match losses with gains, when possible, to avoid taxes when you sell an investment.

Boo-boo #8 – Viewing tax-deferral or tax-avoidance as the most important aspect of a financial move. While important, taxes should not be the sole consideration. Your time constraints, risk tolerance, tax bracket and other financial goals and objectives all should be part of the equation.

Boo-boo #9 – Buying the wrong type of life insurance simply because it's what is being sold. The person selling the insurance is probably not the best person to advise you on what you need. His or her incentive often is only the commission, which is higher for some products than for others.

Boo-boo #10 – Not planning for the efficient distribution of your estate (and custodianship for your children) when you die. It is unbelievable how many people with assets and children don't have even simple wills. If you don't have a will, when you die some judge will decide who gets what. If he's having a bad day, you're out of luck. Call a lawyer TODAY and draft or update your will, trust and powers of attorney.

Boo-boo #11 – Letting emotion drive your investment decisions. Investment catastrophe can take place when objectivity is overshadowed by fear or greed. If you are buying or selling an investment, do it for a sound reason.

Boo-boo #12 – Paying interest of more than 3% on a credit-

card balance. You should NEVER do this.

Boo-boo #13 – Not contributing to your employer's retirement plan, even though your employer makes a matching contribution. Borrow the money if you must, but don't let that matching money get away! If you do, you can watch and cry as it swirls down the drain.

Everyone makes boo-boos. They're part of life, but they're usually not fatal. Like the child who falls off his bike and scrapes his knee, we must learn from our mistakes, get up and get going again.

Mentor Capital on WGN radio

On August 25th our own Tom Adams was a guest on "The Money Show", a personal finance show hosted by Bill Moller on WGN Radio most Saturday afternoons. Tom sat in with Bill to comment on the recent stock market volatility and to answer questions from several listeners who called in.

In addition, Tom was recently quoted in two separate articles in local suburban newspapers. The Doings, circulated in the western suburbs, included several of Tom's comments in an article about asking the right questions when selecting a financial advisor. The Elmhurst Press and other local suburban papers quoted Tom in a story about credit card debt.

To read those articles, and others that we have been quoted in, visit the "What's Up With Us" link in the "Articles" section of our website at www.mentoradvisers.com.



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JOKE OF THE MONTH

There were two guys working for the city. One would dig a hole – he would dig, dig, dig.

The other would come behind him and fill the hole – fill, fill, fill.

These two men worked furiously; one digging a hole, the other filling it up again.

A man was watching from the sidewalk and couldn't believe how hard these men were working, but couldn't understand what they were doing. Finally he had to ask them.

He said to the hole digger, "I appreciate how hard you work, but what are you doing? You dig a hole and your partner comes behind you and fills it up again!"

The hole digger replied, "Oh yeah, must look funny, but the guy who plants the trees is sick today."

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MENTOR
C A P I T A L
105 S. York St., Suite 450
Elmhurst, IL 60126-3444