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Foresight

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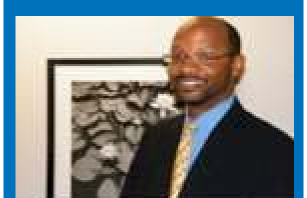

Walid L. Petiri AAMS, RFC
Chief Strategist
Financial Management Strategies, LLC
1330 Smith Avenue
Suite 7
Baltimore, MD 21209
(p) 410-779-1276
(f) 410-779-1302
please visit our website
www.fmsadvisors.com

Greetings!

While your own your way to, returning from, or are currently at your favorite summer place enjoying yourself and your family, July's Foresight gives you plenty to ponder, discuss, and take action on when you get back. Each month I'll share thoughts on various topics in the world of personal finance, investing, economics, and business through my writings below. May you find my musings informative, thought provoking, and enjoyable.

Thoughtfully,

Walid L. Petiri AAMS, RFC
Financial Management Strategies, LLC
http://www.fmsadvisors.com

The Best Bank for your Buck

It is surprising after all of the uproar of the past few years how many people will still put their money in just any bank. Being creatures of habit and maintaining a tried routine has many benefits in life. However *All banks* are not created equal, and let's be clear that many have proven more solvent than others, on this issue visit bankrate.com to review their safety and soundness ratings of your current and future bank. Besides FDIC insurance, what other characteristics should you seek - and what questions should you consider?

How close is this bank? Is there a branch near where you live and close to where you work? How is the online banking setup? (Yes, you should value convenience, but it shouldn't be the only factor in mind as you choose a bank.)

How cheap is it to bank there? You've heard of overdraft fees and ATM fees. But how about wire fees, notary fees, and fees on cashier's checks and money orders? Returned-deposit fees? Stop-payment fees? Fees to check your balance? Fees to talk to a teller? (No kidding, some banks do charge for that.) Is it bad taste to ask a bank to detail its potential fees? No, it's smart. Some banks offer you a free checking or savings account and a whole lot of potential charges besides. Some

Privacy

have plans that cover a whole range of services, plans that could save you some money.

What else can this bank do for me? I you are a business owner can the bank provide your business with credit card processing? Do they offer interest bearing checking accounts? What kind of CD's does the bank offer? How about mortgage, auto, credit cards, and other loan types? Could you send money overseas via this bank? And can you access your account via the ATM if you are overseas? Do they do any trust planning?

How friendly is this bank? When you walk into the bank, what's the reception? Do people greet you and ask how they may help you? Or are you ignored for a prolonged period? What happens may hint at the level of service coming your way.

Ask to see a bank officer, if possible. Oh, and before you go... write down a list of what you want, and see how close your potential new bank comes to providing it. Don't be afraid to make the bank work for your business - they all should be working harder than ever for it.

What can you do to make a banking relationship better for you? If you bring major amounts of cash to a bank, of course you're going to be treated as a VIP. If you don't, it may help you to establish a relationship or two. So often, we go to a bank and we look at the tellers - and even the loan officers and mortgage consultants - as mere functionaries instead of human beings.

If you have a lousy experience at the bank or you get dinged with some weird fee all of a sudden, ask why - preferably in person or then over the phone at your local branch. Only if the problem is not resolved then maybe the customer service staff (via that 800 number to the main office/call center) can address the matter and work out a solution. A good way to assure your known as a valued customer is to bank when it isn't "rush hour" including Saturday's. A friendly, recognizable customer who wants the best from his banking relationship can turn into a valued banking client.

Would it be better to use a bank online? How often do you need to go inside your bank? If you really don't require much in the way of in-person services, maybe an online bank is a better option - after all, why should you pay to support your bank's branches if you never set foot in them? There are some outstanding banks online that can provide you the services of a traditional brick and mortar bank, and because of their lower overhead costs they provide these services at a better value to you. Some typical examples are higher interest rates on CD's, money market rates, and checking accounts , discounts on other banking products/services and innovative products that are often unavailable to you at a traditional bank.

Thinking small may help. Many people were leery of small banks in this last economic downturn, yet the customer service and overall customer experience can be considerably better at such institutions. Also though I am using the word "bank" do not forget to consider *credit unions* as a strong viable option for your needs as they also provide many strong products along with fine service. When a community or other bank is bought by a bigger one, bigger does not necessarily mean better in terms of attention to you the customer, so please be proactive in looking for the best options for you and your family.

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Searching for Income...Bond Investing

Bond investing basics are simple. When you buy a bond, the bond issuer - either a government or corporation - pays you an agreed-upon rate of interest known as the coupon rate. In addition, you get your original investment back when the bond reaches a maturity date.

Bonds come in many flavors: taxable and tax-exempt, long- and short-term, AAA-rated and junk, inflation-protected, fixed-rate and variable-rate.

Before investing in a bond issue, you should consider several factors.

Do you want to go long- or short-term? Normally, longer-term bonds pay higher interest than shorter-term bonds. However, monetary policy and inflation expectations vary with time, so sometimes the normal yield curve may flatten (meaning short- and long-term rates are equal) or invert (short-term rates are higher than long-term rates).[1] When this occurs, it can be very hard to sell a long-term bond because investors can get the same or higher rate investing short-term.

The big question here is: where do you want to be on the yield curve? How long do you want to invest your money for a given return on your investment?

How much risk do you want to assume? As interest rates go down, the value of a bond goes up ... and when interest rates climb, a bond's value falls. If an investor wants less risk, he might choose to buy a short bond, as its value will fluctuate less when interest rates vary. Long bonds usually offer higher interest rates because they typically carry more risk.

Historically if an investor wants no risk, short-term U.S. Treasuries were always the consensus best choice. After all, Uncle Sam backs them up - but they pay a comparatively low rate of return, however as I have talked about in my previous column the burgeoning U.S. debt must now be included as part of the risk analysis for purchasers of U.S. Treasuries.

A bond's duration relates to risk. (The duration of a bond is a measurement of how long it will take for the price of a bond to be recouped by internal cash flow paid out by the bond.) A debt instrument with 1-year duration is not very sensitive to interest rate fluctuations, while a really long bond with 30-year duration will have its value fluctuate sharply with even a small interest rate change. Generally, a bond that pays a higher interest rate and has a longer term will have a higher duration.[2] As an aside please note though U.S. interest rates are paltry at present; a) they have only one direction to head in the coming years b) other "*stable"* countries have and are continuing to raise their interest rates.

How important is the rating to you? Investors usually look to Standard & Poor's or Moody's for bond ratings. Government bonds are perceived as less risky than private sector bonds. Some bond investors do have relatively high risk appetites, with some even buying "high yield" or "junk" bonds from troubled firms whose interest payments are considered more in doubt. The riskier a bond, the higher the interest rate investors will demand.[3] Again I would be remiss if I did not remind you that a portion of the recent financial upheaval was rooted in the lack of creditably of the ratings provided by Moody's and other rating agencies, so use them as a guide and not gospel!

Do you want a tax-free or taxable bond? Many federal and municipal bonds are tax-exempt to some degree. Correspondingly, their coupon rates are lower than corporate bonds. You need to compare muni-bond and corporate bond rates on an after-tax basis. You do this by calculating the tax-equivalent yield, which equals the tax-free interest rate divided by (1 - investor's federal tax rate, or federal tax bracket).[4]

Consider two investors. Investor A pays a 25% federal tax rate while Investor B is in the 35% federal bracket. Should they buy a municipal bond paying 4%, or a highly rated corporate bond paying 6%?

Well, the real question becomes: *What will they take home after taxes?*

They run the numbers on the muni-bond. Investor A calculates his after-tax yield as 5.33% (4%/(1-.25) = 5.33%). Investor B gets 6.15% (4%/(1-.35) = 6.15%) after taxes.

Investor B chooses the muni-bond. However, Investor A figures out that the tax exemption saves her less, so she selects a corporate bond and pays taxes on it.

Other options include inflation protection and variable rates. Treasury Inflation-Protected Securities (TIPS) are issued by the U.S. Treasury, and their principal depends upon the Consumer Price Index. Their principal increases with inflation and decreases with deflation. TIPS appeal to investors who fear that inflation could erode the value of their investment. When TIPS mature, the investor redeems either the original value of the security or the inflation-adjusted value, whichever is greater.[5]

Investors who can tolerate varying interest payments may decide to buy a variable-rate bond. The return on these bonds reflects the general level of inflation, and commonly rises with rising interest rates.[6]

Bond investing demands educated decision-making and

thorough analysis. The global bond market is approximately $82.2 trillion while the global stock market is estimated at only $37 trillion. Clearly there are an abundance of bonds in varieties that investors can find appropriate for their income needs, tax situation, time horizon, and risk tolerance, just make sure to do your homework and a good tutor maybe helpful.

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Choosing the Right Business Entity

Choosing the form of entity under which a business will operate is one of the first, and often the most important, decisions a business owner will make. Although the legal details underlying each entity type are inherently complex, exploring three major variables may help you determine which option is right for you: business control, owner liability, and tax implications.

The major business alternatives today include:

Sole Proprietorship

Partnership

C-Corporation

S-corporation

Limited Liability Company

The following comparison illustrates the most dramatic differences, and similarities, between several entity alternatives.

Sole Proprietorship. As its name implies, a sole proprietorship has a single owner, and is perhaps the most simplistic of all entity types. The main benefits of the sole proprietorship include its ease of implementation and lack of regulatory requirements. In addition, the sole proprietorship allows complete business control to a single business owner (proprietor). Under a sole proprietorship, the business owner is required to file a Schedule C (profit or loss from a business or profession) with their personal income tax filing. The proprietor personally assumes all liability and business risk, which can often be "transferred" through the purchase of liability insurance.

Partnership. The main difference between the sole proprietorship and the partnership is the number of business owners. Although quite easy to establish, it is a good idea to begin a partnership with a formal arrangement known as the partnership agreement. The partnership agreement sets forth the intent of the business owners in the event of a wide variety of business events such as the sale of the entire business, the sale of a single individual's holdings or the disposition of ownership in the event of the death of a partner.

Learn more about partnerships here.

C-corporation. Though often costly and time-consuming to establish and maintain, the C-corporation provides the greatest amount of liability and business risk protection to the business owner(s). Strict governmental regulations outline company structure, reporting, and disclosure requirements.

Learn more about corporations, tax benefits and possible implications.

S-Corporation. The "S Corp" functions as something of a hybrid, assuming many of the best features of several other entity types. The S Corporation is a legal entity that offers owners the benefits of greatly limited liability, while allowing company profits or losses to flow directly through to the business owners for income tax purposes, thus avoiding potential double taxation. The legal requirements and costs associated with starting an S Corporation are modest, as are the regulatory requirements. There are limitations on the number of owners within an S Corporation, and a C Corporation may not be an owner.

Limited Liability Company. Like the S Corporation, the Limited Liability Company (LLC) combines many of the benefits of other entity types. In contrast to the proprietorship and partnership, the LLC provides its owners (or members) with limited liability for the debt and business risk associated with ownership. The LLC also avoids the "double taxation" of the corporation by functioning as a "flow-through entity" for income tax purposes.

Selecting a business entity can be a complex decision with long-term effects on the ownership, owner liability and taxation of a business. Once you have prepared a business plan and evaluated your business ownership goals, consider seeking the advice of trusted financial professionals and advisors in finalizing your final selection of business entity.

More business articles can be found here!

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