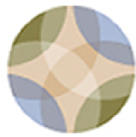


STRATEGIC
Wealth Advisors

March 2012 | Vol. No. 1 | Newsletter

Email Hack Attack? Here's What To Do

Anyone who has experienced an email account intrusion or "hacking" knows how frustrating it can be to deal with the aftermath—from telling friends in milder cases that you didn't send the flurry of bogus emails they received to regaining access to a blocked account. In the most serious cases, a compromised email account can lead not only to identity theft, but also to theft of your money. That's why one of the most important first steps you should take if your email account has been hacked is to notify your brokerage firm and other financial institutions.

FINRA has received an increasing number of reports involving investor funds being stolen by fraudsters who first gain access to the investor's email account and then email instructions to the firm to transfer money out of the brokerage account. In addition to issuing a Regulatory Notice to firms, they are issuing this Alert to warn investors about the potential financial consequences of a compromised email account and to provide tips for safeguarding your assets.

The Federal Bureau of Investigation (FBI), Financial Services Information Sharing and Analysis Center (FS-ISAC) and Internet Crime Complaint Center (I3C) recently issued a joint fraud alert describing a similar trend in which hacked email accounts are being used to facilitate wire transfers. These frauds tend to follow a typical pattern. For example, in some of the instances FINRA has seen, the perpetrators appear to have obtained the investor's brokerage information by accessing the investor's email account and searching contact lists or emails in the "sent" folder. The fraudster then typically sends an email to the investor's...

To read the rest of this article click or paste this link in your browser: http://tiny.cc/jZGe2b.

The SWA Team
Info@xpertadvice.com
480-998-1798
www.Xpertadvice.com

What's Happening at SWA

Jim Schwartz was asked to speak at a national conference for professionals in the grief and loss community. This conference, held in Atlanta this year, is scheduled March 29-31 and will be attended by nearly 500 grief counselors and researchers. His topic is "The Financial Challenges Facing a Bereaved Spouse or Partner".

Earlier in the new year, Jim was interviewed by Channel 12 News for their Hero Central segment which will highlight his initiatives in starting two widowed-to-widowed grief support groups and organizing an annual weekend conference for the widowed community. His story is scheduled to be aired sometime in March.

What Is a Credit Score?

Ever wondered why your application for a credit card was declined? How the interest rates on your loans were determined? Or what those advertisements about getting your free credit report mean? All of these are related to one's credit score.

What is a credit score? It is a system that creditors, like banks, use to determine whether to extend credit to you, the consumer, based on the probability that you will repay the loan and make the payments when they come due. In addition, it is sometimes used to determine the interest rate on the loan. Generally, scores above 720 are considered excellent and you will qualify for most loans. If you have a score in the high 600s to 700s, you will qualify for most loans but not at the best interest rates. Consumers with scores below the mid-600s may not be able to qualify for credit cards loans, and even if they do, would have to pay unattractive rates. So what are the factors that determine your credit score and what steps can you take to improve it?

First, your payment history is the most important component of your credit score. If you have paid bills late or declared bankruptcy, this will lower your score. The best way to keep up with your monthly payments is to live within your means and only use credit cards if necessary. In addition, try to set up an emergency fund to protect you from unexpected expenses or changes in your income, like losing your job.

The second component looks at the amount you owe, or your debt-to-credit ratio. You should have some debt on your accounts to show that you are able to handle credit, but if the amount you owe is close to your credit limit, it is likely to have a negative effect on your score. In addition, some credit card issuers have been reducing lines of credit for customers who have not have any late payments, which will have the effect of increasing your debt-to-credit ratio so make sure to call your issuer to get this reversed if you are affected.

The length of your credit history looks at how long you have had a credit track record and considers the time since your accounts were opened and they were last used. Thus, even though you might have some inactive accounts, it is important not to close your oldest accounts especially if you have a relatively short credit history of less than 10 years.

Fourth, creditors look at whether you have inquired for new credit lately. Do not apply for too many accounts within a short period because it makes it look to creditors as though you are desperate for credit. If you need to make multiple inquiries for home or car loans, or for credit card applications, do it within a short period of time, between 14 to 30 days, so that it will be treated as a single inquiry. Speak to your financial advisor on the best ways to apply for new credit if you need to.

The last factor used in determining your credit score is the types of credit that you have. Try to have a good mix of different types of credit, including credit cards, car loans, and mortgages, which might take longer to establish depending on your current level of income. However, refrain from applying for too many credit cards because this may have a negative impact on your score.

To learn more about your credit score, go to Annualcreditreport.com and obtain a free annual credit report from any of the three major providers —Experian, TransUnion, or Equifax. You will not get your credit score with this free report but you will obtain qualitative information based on the five factors mentioned above, and learn whether you have any inaccurate information or unauthorized accounts. If you would like a more detailed report with your credit score, you can purchase the report from the providers.

Municipal Bonds and Tax-Equivalent Yields

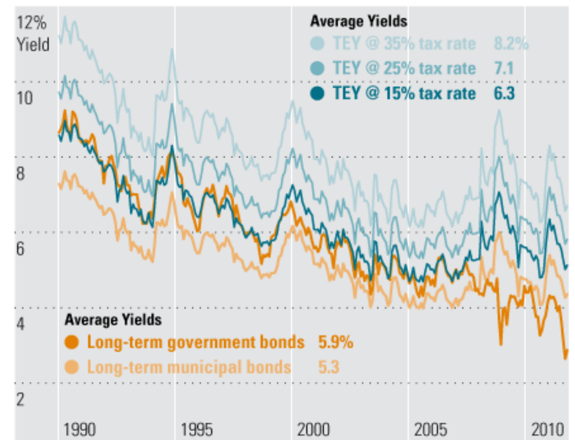
When building a portfolio, it is important for investors to take into account the ability of various investments to build wealth over time (their growth potential) as well as their potential to generate income. Bonds are debt instruments issued by governments, institutions, or corporations that pay interest periodically, making them a great choice for investors looking for current income. One downside to most types of bonds, however, is that the income they generate is subject to taxes. Municipal bonds are one exception.

Municipal bonds (munis) are issued by states, counties, cities, and other government entities and can be categorized into general obligation bonds or revenue bonds. General obligation bonds are backed by the "full faith and credit" of the issuer or its ability to bring in tax revenue. Revenue bonds are backed by income generated from specific projects or agencies. These bonds are often issued by hospitals and airports and are typically considered riskier than general obligation bonds.

Regardless of type, municipal bonds can offer an aftertax equivalent yield that is meaningfully above other bond investments. Yield is usually expressed as a percentage and can be described as the cash distributed periodically from an investment—similar to an interest rate. Municipal bond income is often protected from federal and state income taxes, making these investments desirable for investors in higher tax brackets, but capital gains taxes must be paid if the bonds are sold for more than their purchase price. One way to compare municipal bonds with taxable bonds is by calculating the tax-equivalent yield, which represents the before-tax yield an investor would need to achieve on a taxable bond in order to match a given municipal bond yield.

The image depicts yields for long-term government bonds, long-term municipal bonds, and municipal bond tax-equivalent yields for three different tax brackets. During the time period studied, average municipal bond yields have been below average long-term government bond yields—5.3% compared with 5.9%. However, average tax-equivalent yields have ranged between 6.3% and 8.2%—depending on the tax rate. The higher an investor's marginal tax rate, the greater their tax-equivalent yield will be and the more desirable municipal bonds are as an investment. For example, an investor in the 35% tax bracket not investing in municipal bonds would need an investment producing an 8.2% before-tax yield in order to match a municipal bond yield of 5.3%. An investor in the 15% tax bracket would only need an investment producing a 6.3% before-tax yield. Historically, tax-equivalent yields for all tax brackets analyzed have exceeded long-term government bond yields.

Municipal Bonds and Tax-Equivalent Yields
January 1990–October 2011



This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Government bonds are guaranteed by the full faith and credit of the United States government as to timely payment of principal and interest, while municipal bonds are not guaranteed. State taxes have been ignored in estimating tax-equivalent yields. Municipal bonds may be subject to the alternative minimum tax (AMT) and state or local taxes, and federal taxes would apply to any capital gains distributions.

Source: Long-Term Government Bonds—20-year U.S. Government Bond; Municipal Bonds—Barclays Municipal Bond 20-year index; Federal tax rates from the Internal Revenue Service.

Borrowing from Your Retirement

Barbara is 40 years old, has a child in college, and needs to take out a loan to help with tuition. She is considering either a home-equity loan or a loan from her 401(k), and is not sure which would be the better choice. She has heard that taking out a loan from a 401(k) is painless, since "you don't pay penalties and pay the interest to yourself, not to a bank." What should she do?

Many 401(k) plans offer a loan provision and the process is fairly easy. There is no credit check (since you are borrowing from yourself); the interest rate is usually low (maybe a percentage point or two above prime); you can generally borrow up to 50% of your vested account balance to a maximum of $50,000; you have up to five years to repay the loan (longer for loans used to purchase a primary residence), and the plan administrator usually deducts the loan payments automatically from your paycheck.

However, the real cost of borrowing from your 401(k) is not the rate you pay yourself in interest, but the amount you would have earned on your balance had you just left the money in the account. This is called an "opportunity cost," and it can be significant. In addition, if Barbara loses or changes jobs, a 401(k) loan will most likely come "due in full" within a limited amount of time, while a home-equity loan will not. The balance is taxed as if it were ordinary income and, unless she is at least 59½ years old, failure to pay the 401(k) loan back by the due date triggers a 10% penalty.

So, what are Barbara's choices? In general, if she can take out a home-equity loan at a lower after-tax cost than the return she expects to receive on her 401(k), she should choose the home-equity loan.

©2012 Morningstar, Inc. All Rights Reserved. The information contained herein (1) is intended solely for informational purposes; (2) is proprietary to Morningstar and/or the content providers; (3) is not warranted to be accurate, complete, or timely; and (4) does not constitute investment advice of any kind. Neither Morningstar nor the content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. "Morningstar" and the Morningstar logo are registered trademarks of Morningstar, Inc. Morningstar Market Commentary originally published by Robert Johnson, CFA, Director of Economic Analysis with Morningstar and has been modified for Morningstar Newsletter Builder.

The SWA Team
8426 E. Shea Blvd.
Scottsdale, Arizona 85260
Info@xpertadvice.com
www.Xpertadvice.com
Tel:480-998-1798