January 2014
Newsletter

Korbitz Financial Planning LLC
Eric S. Korbitz, CPA, CFP®
PO Box 170049
Milwaukee, WI 53217
414-979-1040
Eric@KorbitzFinancialPlanning.com
www.KorbitzFinancialPlanning.com

Happy New Year! I hope you are surviving this particularly challenging winter.

As we begin the new year the markets continue to move upward resulting in favorable increases in stock portfolios. While we watch our portfolios increase in value we need to be aware of what that means for the risk level in those portfolios. The first article in the newsletter addresses that issue.

The second article discusses the never ending issue of what financial records we should keep, and how long we should keep them.

With the coming of the new year, many of you with high school students will be planning for college expenses. The next two articles in the newsletter discuss issues you should consider as you prepare for that transition.

The final article touches on the increasing concerns we face with regard to the safety of our personal information and internet safety. This is particularly relevant in light of the recent data breach at Target.

I hope you enjoy these articles and find them helpful. As always, please email or call if you wish to set up an appointment or have any questions.

Eric

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What Goes Up, Must Come Down....

We have just concluded the 5th consecutive year of US Total Market equity gains, regardless of which measure you use (Dow Jones, S&P, MSCI, Russell, etc.) That is a remarkable comeback from the dark days of 2008 and early 2009. However, those gains are reason to ask yourself “Is my portfolio in the position I would want it in if we have another market decline?”

If your portfolio was allocated between stocks and bonds in 2009, 2010, 2011 or even 2012 to your comfort level, and you have not since reallocated, you likely own much more stock than you did in any of those previous years. More importantly, the percentage of your portfolio that is made up of stocks (as opposed to bonds) is much higher than it was previously. What that means to you if the stock market goes down, is that you will be in for a larger decline in your portfolio than you might be expecting. Stocks will go down at some point. I cannot tell you if that will be in 2014 or some subsequent year, but they cannot march upward forever without a break.

Regular rebalancing is the process of selling some of what has gone up in your portfolio and buying some of what has gone down (or not gone up as much.) For the last 4 years, that has generally meant selling stocks and buying bonds, in order to keep the ratio of stocks to bonds where an investor wants it to be.

I would urge you to check when you last rebalanced, whether it was with my assistance, with someone else's assistance, or on your own. If it has been much more than a year, I would suggest that you should look at your portfolio, determine what the stock to bond ratio is, and decide if you are comfortable with that ratio. If not, you need to make a change, most likely by selling some stocks and buying some bonds.

Think Outside the Shoe Box When Organizing Financial Records

If you have questions about how long to keep copies of your federal tax returns and related records, see IRS Publication 17, Your Federal Income Tax. And because states may have different rules, check with your state's tax authority to find out how long to keep state tax returns and records.

If you've ever had trouble finding an important financial document, you know why it's necessary to keep your financial records organized. Less clutter means less stress, and though you'll need to commit a bit of time up front to organize your files, you can save time and money over the long term when you can find what you need when you need it.

What records do you need to keep?

If you keep paperwork because you "might need it someday," your files are likely overflowing with nonessential documents. One key to organizing your financial records is to ask yourself "Why do I need to keep this?" Documents that you should retain are likely to be those that are related to tax returns, legal contracts, insurance claims, and proof of identity. On the other hand, documents that you can easily duplicate elsewhere are good candidates for the shredder. For example, if you bank online and can view or print copies of your monthly statements and cleared checks, you may not need paper copies of the same information.

How long should you keep them?

A good rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. If a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely.

Records that you may want to keep for a year or less include:

- Bank or credit union statements
- Credit card statements
- Utility bills
- Annual insurance policies

Records that you may want to keep for more than a year include:

- Tax returns and supporting documentation
- Mortgage contracts and supporting documents
- Receipts for home improvements
- Property appraisals
- Annual retirement and investment statements
- Receipts for major purchases

Records that you may want to keep indefinitely include:

- Birth, death, and marriage certificates
- Adoption papers
- Citizenship papers
- Military discharge papers
- Social Security card

Of course, this list is not all-inclusive and these are just broad guidelines; you may have a good reason for keeping some records for a shorter or longer period of time.

Where should you keep them?

Where you should keep your records and documents depends on how easily you want to be able to access them, how long you plan to keep them, and how many records you have. A simple set of labeled folders in a file cabinet works fine for many people, but electronic storage is another option if space is tight.

For example, one easy way to cut down on clutter and still keep everything you need is to store some of your files on your computer. You can save copies of online documents or purchase a scanner that you can use to convert your documents to electronic form. But make sure you keep backup copies on a portable storage drive or hard drive, and make sure that your files are secure.

Another option to consider is cloud storage. Despite its lofty name, cloud storage is simply an online backup service that allows you to upload and store your files over the Internet, giving you easy access to information without the clutter. Information you upload is encrypted for security. If you're interested, look for a company with a reliable reputation that offers automatic backup and good technical support, at a reasonable subscription cost.

Staying organized

Keeping your financial records in order can be even more challenging than organizing them in the first place. One easy way to prevent paperwork from piling up is to remember the phrase "out with the old, in with the new." For example, when you get this year's auto policy, discard last year's. When you get an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful).

But don't just throw your financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder that will destroy any document that contains account numbers, Social Security numbers, or other personal information.

Whatever system you choose, keep it simple. You'll be much more likely to keep your records organized if your system is easy to follow.

As of June 2012, assets in 529 plans totaled $178 billion, with 88% of that (about $157 billion) in college savings plans and 12% (about $21 billion) in prepaid tuition plans. (Source: College Board, Trends in Student Aid Report, 2012)

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.

529 Plans: College Savings Plans vs. Prepaid Tuition Plans

With college costs increasing every year and the prospect of too much student loan debt at the forefront of many families' minds, it's important to make college savings the cornerstone of any college financing plan.

Toward that end, 529 plans can be a smart way to build a college fund. People of all income levels can open an account. All contributions to a 529 plan grow federally tax deferred and are tax free if used to pay the beneficiary's qualified education expenses. There are two types of 529 plans: college savings plans and prepaid tuition plans. Both enjoy the same tax advantages, but there are major differences between them.

	College Savings Plan	**Prepaid Tuition Plan**
What is it?	A college savings plan is an individual investment account. You contribute money and direct your contributions to one or more of the plan's investment options, which typically range from conservative to aggressive in their degree of risk. Plans are offered by states.	A prepaid tuition plan is a pooled account. You contribute money and in exchange you receive a certain number of tuition credits, which can be redeemed in the future. Plans can be offered by either states (more common) or colleges.
Can nonresidents open an account?	Yes, college savings plans are open to residents of any state. And you can open an account any time of year.	No, state-sponsored plans are only open to state residents. However, college-sponsored plans are open to anyone. Generally, you can open an account only during open enrollment, which is once or twice per year.
Does the plan guarantee an investment return?	No, college savings plans offer a menu of investment options, and your account gains or loses value according to the investment performance of the options you've chosen. You could lose money investing in this type of plan.	Yes, prepaid tuition plans guarantee to cover a certain amount of tuition in the future based on the contribution you make today. However, some plans have been unable to meet their initial guarantees, so fully research any plan guarantee before investing money.
What education expenses does the plan cover?	Funds in a college savings plan can be used for undergraduate and graduate tuition, fees, room and board, books, and equipment at any accredited college in the United States or abroad.	Tuition credits in a state prepaid plan generally can be used only for undergraduate tuition and fees at in-state universities; tuition credits in a college prepaid plan can be used for undergraduate tuition and fees at member colleges. If the beneficiary attends a nonmember college, there are typically limits on how much the plan will cover.
When can withdrawals be made?	There is generally no time limit.	Tuition credits generally must be used by the time the beneficiary reaches age 30.
What fees and expenses are charged?	College savings plans typically charge an investment fee for each investment option, so be sure to take a close look at your investment choices. Some plans may also charge an initial new account fee, a flat annual maintenance fee, and a withdrawal fee if you decide to switch plans.	Prepaid tuition plans typically charge a flat enrollment fee, and may also charge more miscellaneous fees than college savings plans, such as fees for returned checks, beneficiary changes, or changes to the payment schedule.

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Is my child's college scholarship taxable?

It depends. If a scholarship is used to pay for tuition, fees, books, supplies, or equipment required for admission, then it's not taxable. But if it's used to cover incidental expenses like room and board, travel, or optional equipment, or if it's awarded as payment for teaching or research, then it's taxable. Generally, if a scholarship is taxable and needs to be reported on your tax return, you will include the amount on the same line as "Wages, salaries, tips, etc."

Fortunately, most scholarships let the recipient decide how to apply the money. However, there's one thing to consider here: if you use a scholarship to cover tuition, fees, books, or required equipment--making the scholarship tax free--you can't use those same expenses to qualify for the American Opportunity tax credit. That's because the credit applies only to tuition and fees paid with after-tax funds--tuition and fees paid with tax-free funds like scholarships or 529 plan funds won't count.

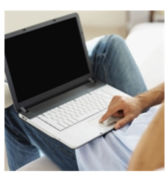
The American Opportunity tax credit--available for each of the first four years of a student's college education--is worth up to $2,500 per year and is calculated as 100% of the first $2,000 in tuition and fees plus 25% of the next $2,000 in tuition and fees. Your modified adjusted gross income must be below a certain level to get the full credit: $160,000 for married couples filing jointly and $80,000 for single filers.

If your child gets a scholarship and you qualify for the credit, you'll want to run some numbers to decide whether it's best to:

- Apply the scholarship to tuition and fees, making it tax free, but also disqualifying those same tuition and fees from counting toward the credit, or
- Apply the scholarship to incidental college expenses like room and board, making it taxable, but allowing the full amount of tuition and fees to count toward the credit.

In making this determination, keep in mind that a tax credit is generally more valuable than a tax deduction because a tax credit reduces any taxes owed dollar for dollar.

For more information on the tax treatment of scholarships and the American Opportunity tax credit, refer to IRS Publication 970, Tax Benefits for Education.



What can I do to protect my username and password information from computer hackers?

At one time, computer hackers were viewed as a few rogue individuals who mainly worked alone. Today, many hackers are part of highly sophisticated networks that carry out well-organized cyber attacks. Unfortunately, these online security breaches can result in your username and password information being compromised.

Whenever you enter your personal information online, you'll want to make sure that you create a strong password to protect that information. Some tips for creating a strong password include:

- Avoid creating simple passwords that have a connection to your personal identity (e.g., date of birth, address) or that can be found in the dictionary
- Create a password that uses a nonsense word/random alphanumeric combination or an arbitrary, easy to remember phrase with mixed-up character types (e.g., upper/lower case, punctuation)
- Don't use the same password for multiple websites
- Use an online tool that allows you to test the strength of a password

If you have trouble keeping track of all of your password information or if you want an extra level of password protection, you may want to use some type of password management software. There are a variety of password managers on the market. Password managers typically work by using high-level encryption methods to store all of your online usernames and passwords on one secure server, using a single master password.

There are a few things you should consider when choosing a password manager. First, if you plan on needing your password information for use on various devices (e.g., tablet, smartphone), you will want to choose a password manager that has mobility features. In addition, some password managers offer added benefits such as web form fillers, which can come in handy if you do a lot of online shopping. Other features to look for include automatic log in and password generator capability.