

DOCTOR'S DIGEST

MONEY MATTERS

Winter 2010

Financial tips from leading experts



How to Get Higher Yields on Your Cash Reserves

If you do a little research, you can get better yields for your cash than money market funds and many bank accounts, which pay astonishingly low interest rates these days.

Here are three examples from Rich Chambers, founding partner, Investor's Capital Management LLC, Menlo Park, Calif.

- **Schwab Bank's High-Yield Checking Account.** The current yield here is 0.75%. Mr. Chambers

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Coping with Disappointing Life Insurance Values

The news is grim for those who either bought variable life insurance in the late 1990s and invested in stocks within those policies, or bought universal life and whole life policies hoping that cash values would grow at substantial rates to match bond yields.

Because of the recent severe bear markets, stocks have suffered while bond yields have fallen. Therefore,

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Are Hedge-like Mutual Funds Right for You?

With only a modest investment of a few thousand dollars, you can now invest in hedge-like mutual funds and take advantage of a hedging strategy that has previously been available only to the very wealthy or to institutions, thanks to the introduction of new mutual funds.

Hedging is a strategy that paid off during the recent economic downturn: Results vary; but Morningstar's Long-Short category posted a loss of 15.4% in 2008, which was much better

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When Prepaid Plans Make Sense

If you're planning for a child's college education, you may find prepaid tuition plans a good option.

Unlike the 529 college savings plans, which were hit hard by the 2008 bear market and still have not recovered their losses, contributions to the prepaid plans are guaranteed to grow at the same rate as college tuition increases, regardless of how financial markets perform.

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Understanding New Tax Credits for Home Buyers

If you've been putting off buying a first home—or even moving at all—new tax credits may make it more attractive to do so. Congress passed a law late last year that expands the previous law's tax credit options for home buyers. Here's what's new:



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What's the Right Strategy for You?

While financial professionals usually differentiate between strategic and tactical investing, some say a combination of these approaches would work for some investors.

Although the definitions are not etched in stone, here's a guide:

Strategic investing usually refers to a long-term approach. You might decide to hold 75% of your portfolio in stocks, for example, and 25% in bonds. You'd keep investing, through good times and bad, and hope for superior returns.

Tactical investing usually indicates an attempt to move in and out of stocks at the right time, to avoid the worst of bear markets. You might sell stocks when the market seems pricey,

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How to Get Higher Yields on Your Cash Reserves *(Continued)*

says he uses this account and recommends it to his clients not only for the yield but for other advantages, which include easy access to your money and no fees. This account is covered by federal deposit insurance of up to \$250,000 per depositor per bank.

- **Emigrant Bank's DollarSavingsDirect.com.** The current yield here is 1.5%. This account, which is available online, can be electronically linked to your checking account. You can keep money at DollarSavingsDirect.com, earning the relatively high yield, and transfer funds to your checking account as needed. This account also is covered by federal deposit insurance of up to \$250,000 per depositor per bank.
- **Ford Interest Advantage.** The current yield here is 2.32% to 2.63% depending on the account balance. Mr. Chambers uses this account for some of his own money but not for clients' cash because of the higher risk: This account is not covered by federal deposit insurance. 💰

Following through: To keep up with high-yielding online savings accounts, go to www.savingsaccounts.com/.

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Understanding New Tax Credits for Home Buyers *(Continued)*

- **Higher income limits.** The full tax credit is available to single taxpayers with income up to \$125,000 or up to \$225,000 for married couples filing a joint return. These amounts have been increased from \$75,000 and \$150,000 in the prior law from early 2009. Partial credits are available if those income levels rise to \$145,000 and \$245,000, respectively.

*You may qualify for a
\$6,500 tax credit
depending on your income.*

- **Option for certain previous owners.** First-time home buyers can get a tax credit up to \$8,000. You qualify if you (and your spouse, if you're married) haven't owned a home for three years before the purchase. In addition, if you've owned and lived in the same home for five consecutive years during the eight years before the purchase, you may qualify for a \$6,500 tax credit depending on your income.

You have to use the home you buy as a principal residence by April 30 of this year. That moves up to no later than June 30 if a binding contract is in place by April 30.

"A qualifying purchase in 2010 can be taken on a 2010 or a 2009 tax return," says Marty Abo, a CPA in Voorhees, N.J. He notes that homes costing over \$800,000 are ineligible for either tax credit. 💰

Following through: Go to www.irs.gov/newsroom/article/0..id=204671.00.html for complete details on the newest version of this tax credit.

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Are Hedge-like Mutual Funds Right for You? *(Continued)*

than regular stock funds, which posted losses a 37.5% average loss for domestic stock funds in 2008.

In 2009, these funds hedge-like mutual funds were up 10.4%, enabling investors to recoup a good portion of their losses from the 2008 bear market.

Although there are many types of these funds, the basic hedging strategy is to go long—and short. Here's how it works:

- **Hedge funds go long.** The funds buy certain stocks, bonds, or other assets and hope to make money if prices rise.

A skilled hedge fund manager can make money in bull or bear markets.

- **Hedge funds also go short.** They enter into transactions structured to make money if specified assets lose value.

Because of this mix, a skilled hedge fund manager can make money in bull or bear markets. Investors may wind up with superior long-term returns and a smoother ride to get there. Unlike regular hedge funds, many—though not all—hedge-like mutual funds offer lower minimum investments and lower fees as well as easier access to your money.

"You might be able to get into these funds with just a few thousand dollars," says Nadia Papagiannis, editor of *Alternative Investments Observer*. "You can sell your shares whenever you want, which generally is not the case with hedge funds; and fees are much lower than what you'd pay for hedge funds." 💰

Following through: Go to <http://www.nytimes.com/2010/01/10/business/mutfund/10hedge.html> for a detailed look at why 24 hedge-like mutual funds were launched in 2008 and 2009.

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When Prepaid Plans Make Sense *(Continued)*

The catch? Most of these plans, which are offered in 18 states, are tied to the state's financial fortunes. In the recession of 2008-09, many states have increased fees for these plans or adopted other measures to make them less attractive.

"A few state plans shift the risk from the plan to the schools, which is better for parents," says Joe Hurley, a CPA and president of Savingforcollege.com. He cites Massachusetts and Texas as examples of this shift. "In addition, the Independent 529 plan offers the same approach to funding tuition at over 280 private colleges across the country."

You probably shouldn't manage all of your college savings through a prepaid 529 plan, because these plans generally will provide benefits only for tuition and only at specific schools. Nevertheless, you may want to put some money there if you think your child is likely to attend a school covered by the plan. **\$**

Following through: Go to http://www.savingforcollege.com/college_savings_201/ to find out whether your state has a prepaid plan.

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Coping with Disappointing Life Insurance Values *(Continued)*

many life insurance policies have disappointing cash values. Unless the policy is bolstered, there may not be enough cash to keep the policy in force as you grow older.

Here's what you should do now to re-evaluate and bolster your situation:

1. Request an "in-force ledger." That will show the policy's current status.
2. If the policy is underfunded, get a schedule of how much you'll need to pay to catch up.
3. Explore your other options. You can cancel the policy if it's no longer needed, reduce your coverage, or exchange your old policy for a new one.

"Policies offered now might be better," says Terry Quinn, an attorney who has an insurance consulting firm in Atlanta. "Some companies are offering stronger guarantees of cash value and insurance benefits." **\$**

Following through: For insights on how to interpret a life insurance policy illustration, go to <http://articles.moneycentral.msn.com/Insurance/AvoidRipoff/AvoidTheInsuranceIllustrationTrap.aspx>.

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What's the Right Strategy for You? *(Continued)*



park the proceeds in cash, then reinvest after stocks have tumbled.

"Investors probably should not be fully invested in tactical methods because they may be late getting in and out of the market," says Bill Crager, president of Envestnet, a wealth management firm based in Chicago. "However, it may be appropriate to use tactical methods for a portion of the portfolio because these methods may help investors become defensive in falling markets." **\$**

Following through: See www.thestreet.com/story/10612765/the-tactical-investor.html for an overview of tactical investing.

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