

JOE LEE'S FINANCIAL NEWS DIGEST



A COMPILATION OF INFORMATION AND IDEAS FOR EFFECTIVE MONEY MANAGEMENT

Money line

Impostor Scams On The Rise

Courtesy of
Joe Lee

What's the nation's biggest consumer complaint?

For the 11th year in a row, the Federal Trade Commission said it received more complaints about identity theft than any other single item, including debt collectors (ranked second) and the ever-popular bogus sweepstakes.

The FTC says among the fastest growing types of fraud are those collectively known as impostor scams. Generally, they're perpetuated by people who pose as someone you know — or government agencies that you trust — to get information that can lead to identity theft. Or in some cases, just old-fashioned theft.

A favorite impostor scam is the fake Internal Revenue Service e-mail. The target of the fraud gets an e-mail with an official-looking IRS logo demanding a credit card number to settle a tax debt. If the potential victim doesn't come through, the e-mail warns, the agency will take action by garnishing the person's wages or placing a lien on his or her home.

The IRS doesn't contact taxpayers by e-mail or even by phone. But a person who doesn't know that might be shaken enough to click on the link in the e-mail and plug in a credit card number.

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Financial Front

NEWS BRIEFS AND HIGHLIGHTS FROM THE FINANCIAL WORLD

Consider buying when the public is selling, and selling when the public is buying. In the last decade, investors consistently bought into the S&P 500 Index near its high and sold near its low. According to *Bottom Line Personal*, individual investors paid 23% above the average price of the S&P 500 during the past decade. It can be very difficult to go against common and accepted viewpoints, but that has consistently been a better way to make money—or limit losses—than following the crowd.

“Recasting” a mortgage can let you reduce monthly payments for a small fee—without applying for a new loan or paying for a reappraisal. Recasting—also called reamortizing—can be done only on certain existing fixed-rate loans. Ask your lender if yours qualifies. If it does, you can pay down a substantial portion of the outstanding mortgage principal to reduce the monthly payments, including the amount of interest, for the remaining loan term. If you have cash, want to reduce monthly payments, and can't refinance (perhaps because you had a loan that required no employment, income or asset verification), recasting may be an inexpensive option—a bank may charge only \$150 or \$250 for it. But there may be investment and tax consequences. If your mortgage is eligible, ask your tax adviser if recasting makes sense.

“High-yield investment programs” (HYIPs) are generally promoted through social media sites and are almost always too good to be true. Often these are unregistered

investments offered by unlicensed people and companies claiming to deliver returns as high as 20%, 30% or even 100% per day. You may want to avoid any investment whose returns seem too good to be true. Avoid any site that does not clearly explain how returns are generated; that may involve certain off-shore operations; or that offers certain incentives to recruit new investors. Many scams offer referral bonuses as high as 25% and pay the bonuses from the new money, which is a hallmark of Ponzi schemes.

Restrictions on lenders when someone dies. Debts remaining are settled from the estate before heirs receive their inheritances. While the estate is being settled, credit card companies must stop adding fees and penalties to accounts. Outside of the estate, surviving family members usually are not obligated to pay the debts of the deceased. Exception: Property acquired by couples during marriage in community-property states—Alaska, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. In those states, when a spouse dies, creditors may be able to use the property to satisfy debts of that spouse. If debt collectors call, refer them to the estate executor or administrator.

Wit & Wisdom

*“When your work speaks
for itself, don't interrupt.”*

— Henry J. Kaiser

Thinking Of Starting A Business? Look Before You Leap

By Elliot Raphaelson

Thanks in part to high unemployment and poor prospects for middle-aged job seekers, more people than ever are now considering starting a small business. In recent columns, I have mentioned a nonprofit organization called SCORE, which counsels and mentors small businesses across the United States.

I have volunteered with the organization for 10 years, and I've been able to learn from other volunteers who have had successful careers. One of the most experienced counselors at my chapter in Orlando, Fla., is Joseph Lefkowitz, who ran a successful catalog showroom business. Joe has helped many new business owners to prosper, and he has volunteered for SCORE for 27 years. I asked him what factors were most important in the success of his businesses. He thought that understanding marketplace demand is extremely important. If there is no demand for your product or service, you cannot succeed. He also had this advice for small business owners:

- Hire competent personnel who understand the business, even if they are more expensive.
- Perform the most important jobs yourself. You can't afford to delegate critical duties.

- Monitor all revenues and expenses.

Joe and I also discussed the reasons a lot of fledgling businesses falter. These include:

- The business owner failed to secure enough working capital to cover

If there is no demand for your product or service, you cannot succeed.

expenses until the business was profitable.

- The owner lacked knowledge of his or her business.
- The owner failed to do due diligence before starting. For example, he or she neglected to test market product or service to ensure demand; failed to identify a proper location; or failed to understand the competition.

New entrepreneurs are often quickly surprised by the realities of running a business, the chief one being that it is a lot harder than they expected it to be. Many start their business assuming it will be easy to obtain financing or a grant. However, grants are few and far between. And if you are starting a new small business, don't expect your local bank to finance you.

Until you have been in business a few years and you are profitable, almost no

financial institutions will consider providing you capital. Plan on either financing the start-up yourself or getting capital from relatives and friends. Even if you have been in business a few years, in order to obtain a loan, you will need a good business plan. SCORE can help you put one together.

I asked Joe whether his advice has changed over the years and, if so, how. He responded that the most important factor is new technology and new communication methods. He felt that more education is required for success in small business these days, as is knowing how to use the Internet and social networking technology. Social networking is becoming an important tool for business, and SCORE provides useful seminars in this field.

There are local SCORE chapters throughout the country, and they are an important resource for new and existing small business owners. Experienced counselors offer guidance at no cost, and well-designed, informative seminars are conducted at minimal cost. In the next few months, SCORE will be improving its website (SCORE.org) to enable prospective business owners to communicate with SCORE counselors throughout the United States. This nationwide database of experts in specific industries will be available to anybody who comes to a local chapter for counseling.

It's not easy to start a small business and make it succeed. It requires capital you won't be able to borrow, an in-depth knowledge of a business, and a lot of hard work and diligence. You will probably need support from business owners who have succeeded. Fortunately, the volunteers at SCORE can help you overcome these challenges.

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Retirement Savers Need To Plan For the Critical Draw-Down Phase

By Mark Miller

Saving and investing for retirement is tough enough. But making a plan to spend your nest egg is an equally critical challenge.

Most Americans don't have a "decumulation" plan—that is, how much to draw down from savings and when.

A majority of pre-retirees (over age 55) can't identify a "rule of thumb" for an appropriate annual percentage to draw down in retirement, a recent Fidelity Investments survey found. Most planners say that rule of thumb is 4 percent plus an annual increase for inflation. But Fidelity's respondents were all over the map; their mean number was 8.4 percent, and answers ranged from 1 percent to 25 percent.

Fidelity's findings are consistent with other studies showing a lack of long-term planning. For instance, a new Society of Actuaries survey finds that few individuals look 20 years or more into the future when making important financial decisions (13 percent for pre-retirees and seven percent for retirees).

Decumulation planning has become more important as workplace retirement plans have shifted away from defined benefit pensions and toward defined contribution retirement benefits—mainly 401(k)s. Social Security checks aside, the trend means most workers are in charge of determining how and when they'll pay themselves in retirement from accumulated savings.

The trick is finding a balanced approach that meets income needs while avoiding the risk of running out of money. That challenge has been exacerbated by stock market volatility—as anyone who retired in the wake of the 2008 crash can attest.

T. Rowe Price examined this volatility challenge in a recent study investigating the impact on pre-retirees and current retirees of the two deep bear markets that occurred in the last decade. The researchers asked what, if any-

thing, could retirees have done differently to avoid running out of money in retirement — and what could they do differently in the future?

The key finding: Retirees struggling in the past decade could boost significant-

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ly their odds of success by adjusting their withdrawal rates in the first five years of retirement. In this case, success was defined as not running out of money before age 95.

The analysis starts with a hypothetical worker who retires on Jan. 1, 2000, with a \$500,000 portfolio invested 55 percent stock market/45 percent bond market. Four withdrawal strategies are analyzed using Monte Carlo probability analysis to understand the likely impact on the portfolio using actual returns for stocks and bonds in the following 10 years, including the bear markets of 2002 and 2008-2009:

Classic decumulation: The retiree withdraws four percent (\$20,000) in the first year, and increases the annual withdrawal amount by three percent each year to keep up with inflation.

Temporary reduction: Withdrawals are reduced by 25 percent for three years after each bear market bottom (from 2002-2005 and again from 2009-2012).

No inflation increases: The COLAs are cut three years after each bear market bottom (from 2002-2005 and again from 2009-2012).

Bail on stocks: The investor switches to a 100 percent bond market portfolio at the end of the first bear market in September 2002.

The 25 percent reduction option

produced the best long-term result; by the end of 2010, the retiree's odds of having enough money to last to age 95 (the remainder of the retirement period) jumped to 99 percent of the simulations. "This really boils down to cutting back on what you withdraw—but not everyone can stomach that big of a cut," says Christine Fahlund, senior financial planner at T. Rowe Price. "So, the next best thing is not to increase your withdrawal amounts for inflation."

In that scenario, the odds of success were restored to 89 percent of the simulations. The worst outcome was achieved by the all-bond market portfolio, which achieved success in none of the simulations.

The T. Rowe Price study is a stress test for planning in the toughest market conditions, but it illustrates just how much withdrawals can impact long-term retirement planning success. Says Fahlund: "Many of us think it's impossible to cut our spending, but the truth is we live in such affluence that we can cut if we absolutely have to."

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On The Money



"The Politician's Lunch is a pork sandwich and we send the bill to your grandchildren."

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Tax Mistakes

How To Correct A Mistake On A Recently Filed Tax Return

By Kathy Kristof

What do you do when you realize that you made a mistake on a recently filed tax return?

The key to fixing a tax mistake is a form called the 1040X — the amended U.S. individual income tax return. It looks somewhat like the basic tax return at the top, asking your name, address, Social Security number and filing status. But then it deviates from the regular form by dispensing with all the questions about where your income came from and what specific deductions you might have to reduce the taxable portion.

Instead, the 1040X cuts to the chase with a three-part question: How much adjusted gross income did you report before, what are you reporting now, and how much is that number changing?

It then asks the same three questions

about your deductions, exemptions and taxable income.

The final portion of the form simply asks for documentation or an explanation of why you're making the correction.

Theoretically, your final step is to simply sign, date and mail.

But filing a corrected tax return is rarely that simple. In reality, any change in your adjusted gross income is likely to alter several other calculations that determine your deductions, taxable income and tax.

That's mainly because many tax breaks are income-tested, meaning that they may not be valid at all income levels.

Some examples: Your ability to claim the child tax credit for paying college tuition is predicated on earning less than a set amount. Your ability to deduct medical expenses can depend on whether the

bills exceed a certain percentage of your income.

Therefore, even though the 1040X doesn't technically require it, you'd be wise to redo your entire 1040 tax return, ensuring that you adjust all calculations that could give or take away deductions or credits based on income thresholds. In some cases, a change in your income might allow you to qualify for new deductions, and that could involve filling out additional forms.

If you're expecting a big refund because of your corrections, you'll need to be patient. The IRS says it typically takes eight to 12 weeks to process a corrected 1040.

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