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# JOE LEE'S FINANCIAL NEWS DIGEST



## MONEYLINE

### Average Investors Don't Heed Sage Advice

*Courtesy of Joe Lee*

Poor old Benjamin Graham must be turning in his grave. Didn't he say, "Buy low. Sell high.?"

The stock market has certainly given us a roller coaster ride over the last few years. I'm as thrilled as the next person when it goes up, and I never like seeing my asset values shrink when it goes the other way. So it moves in both directions—I get that. But what I will never understand is the upside-down logic of the investing public. It's not a total shock that the average investor may be less than rational, but old Ben's timeless strategy seems to be all but forgotten.

A popular financial magazine compared market performance with mutual fund inflows over the past seven years. Not only do fund investors apparently react to the short-term gyrations of the S&P, they often overreact, displaying a volatility exceeding even that of the market itself. They tend to pile in when the market is good, and flee when stocks are falling, buying high and selling low.

But remember, by the time you hear what the market is doing, it's already done it and very likely not doing it anymore. So stick to your plan—whether strategic or tactical—to help you follow Ben's advice: "Buy low. Sell high.—Of course an investor needs to bear in mind no investment plan or strategy can guarantee against a loss in a down market." [↗](#)



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**529 tax loophole:** You can put money into a 529 college savings plan, withdraw it immediately for tuition if your child is in college, and still receive a state tax deduction up to the allowable annual limit. A 529 plan is an education savings plan designed to help families set aside funds for future college costs. Thirty-four states and Washington, DC, allow a deduction on state income taxes for 529 contributions and do not specify how long contributions must sit in the plan.

**Watch out for these tax scams:** Beware of *phishing*—a scammer’s attempt to get personal information from you by sending an E-mail saying that you must supply data for tax purposes. This is an identity-theft scam; the IRS would not contact you by E-mail for personal data. *Tax-avoidance schemes* promoted by criminals claim that you do not have to pay taxes if you do certain things. *Examples:* Claiming personal expenses as business expenses or hiding income offshore to make it nontaxable—you still must report it and pay taxes on it. The criminals collect fees for their fraudulent advice, and you can go to jail if you follow it. *More information on tax scams:* [www.irs.gov/newsroom](http://www.irs.gov/newsroom).

*“In charity there is no excess.”*

— Sir Frances Bacon



## Why Your Paycheck Is Really A Bond

By Jonathan Clements, *Wall Street Journal*

**M**any folks think the world revolves around them. And financial experts agree.

Among leading investment advisers, one of this year’s most discussed topics is so-called lifecycle finance. The notion: Often, our most valuable asset is our ability to earn income, so we ought to figure our “human capital” into our investment mix.

Indeed, lifecycle finance provides a great framework for thinking about money—and it could help you build a more prudent portfolio.

**Managing capital.** If you are in your 20s, you likely have precious little savings, but ahead may lie four decades of paychecks. By contrast, if you are in your 60s, your income-earning days are probably drawing to a close. With any luck, however, you have amassed a fair amount of financial capital to replace your human capital.

How can you best manage your financial capital to complement this gradual decline in your human capital? Think of your paycheck as similar to a bond, with its steady stream of income.

Early in your career, you may want to diversify this “bond” by investing in stocks. But as you grow older, you should prepare for the eventual disappearance of your paycheck by owning more of the bond market in your portfolio.

### Seeking stability.

Seem reasonable? Problem is, not everybody’s paycheck is bondlike. Suppose you’re a salesperson on commission. Your month-to-month income may be highly unpredictable, so you might want to lean toward bonds in your portfolio.

Favoring bonds can be especially smart if you’re a Wall Street employee whose income rises and falls with the stock market. Terry Burnham, director of economics at Boston’s

Acadian Asset Management, tells the story of a friend in the money-management business.

“He has 100% of his money in short-term, high-quality bonds,” Mr. Burnham recounts. “His broker says, ‘You could earn higher returns in stocks.’ His response is, ‘I am the S&P 500.’”

**Avoiding yourself.** Once you decide how much risk to take with your portfolio, think carefully about which particular investments you buy.

Workers will often invest heavily in their own company’s shares. Real-estate brokers will buy rental properties. Silicon Valley employees will load up on technology stocks. This “invest in what you know” strategy may be comforting. But it isn’t as safe as it seems.

“What are the characteristics of your human capital?” asks Moshe Milevsky, a finance professor at Toronto’s York University. “If you’re a real-estate developer, maybe you’re a real-estate investment trust. If you’re a miner, maybe you’re an ounce of gold. If you work for Weyerhaeuser, maybe you’re a forest product.”

The implication: Your income is already riding on one sector of the economy. Don’t crank up your risk even further by sinking your savings into the same sector.

**Insuring income.** Lifecycle finance can also help you figure out what type of insurance to buy.

Given that your human capital is so valuable, you will want to protect your family against the loss of this income by buying life insurance and, if your employer doesn’t provide it, disability insurance as well. ↻

# Solo 401(k) Lets Self-Employed Shelter More Of Their Income

By Kathy Kristof, Tribune Media Services

If you're self-employed and yearning to shelter some of your income from taxes, you probably know all about SEP-IRAs, the retirement plan for small-business owners.



But do you know about so-called solo 401(k)s? "They give you a lot more options," said Stuart Robertson, head of ShareBuilder 401k.

The solo 401(k) rules allow you to play the roles of both employer and employee, allowing you to contribute more to the plan than you could to a SEP, or simplified employee pension plan.

To be specific, a SEP allows you to contribute up to 20 percent of net self-employment income to the plan, maxing out at \$49,000 in contributions per year.

But with a solo 401(k), as your own employee, you can contribute as much as 100 percent of your earnings to the solo 401(k), up to \$16,500 in contributions annually (that goes up to \$22,000 annually if you're over the age of 50). Then, in the role of your own employer, you can contribute an additional 20 percent of the business' net income as a profit-sharing contribution.

The ability to contribute in this lavish manner would be of concern only to the smashing successful. But

if that spells you, the individual 401(k) is definitely worth a look.

Consider a hypothetical 52-year-old with \$150,000 in net business income. If he used a traditional SEP, the most he could contribute to the tax-sheltering account would be \$30,000 (20 percent of the \$150,000).

Now consider a hypothetical businesswoman in the same situation who chooses a solo 401(k). She'd be able to contribute \$22,000 as the employee, plus \$30,000 more as the employer, sheltering a total of \$52,000 annually. That extra \$22,000 in contributions to the plan would cut her federal income tax bill by nearly \$6,200, assuming she's in the 28 percent federal tax bracket. If she's in a high-tax state, such as California or New York, she would save considerably more.

For those who are as concerned about future taxes

as they are about those that they pay now, the solo 401(k) has another unique feature: it allows you to set up your employee contributions Roth-style. That means you don't get to deduct those contributions when they are put into the account, but when that money is taken out of the plan in retirement it's 100 percent tax free. (The employer, profit-sharing portion of the contributions would be, as usual, tax sheltered before retirement and then subject to taxes in your golden years.)

For people who want to put aside substantial savings, "the solo 401(k) is clearly the best option," Robertson said.

What's the catch? If you want all the bells and whistles, setting up a 401(k) can be cumbersome and costly. ↗



*Awareness of this year's Social Security tax break is very low. Nearly half of people surveyed didn't realize they are getting it. The break reduces most workers' share of Social Security payroll taxes to 4.2% instead of 6.2%, making paychecks larger. The 46% who did not know made up the largest group among those surveyed. Next largest: 22% said they would use the extra money to catch up on past-due bills, and 19% said they would make additional payments to creditors. Only 8% said they would save the extra money, and just 3% said they would use it for increased retirement contributions.*

*Most businesses fail simply because they don't find enough customers. Basics of effective selling: Meet with each potential client to determine how their buying decisions are made, and target your approach to all those who influence the buying decision. Focus on your firm's strengths, not on the competition—which you cannot control. Listen to each prospect carefully to determine his/her needs and find ways to meet those needs. Figure out why the prospect should buy from you—you must be able to articulate this to him. Anticipate losing the business, and analyze why this could happen—then adjust your approach so that it doesn't.*

*"I have enough money to last me the rest of my life, unless I buy something."*

— Jackie Mason

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## Do You Have Unclaimed Property You Don't Know About?

By Elliot Raphaelson, Tribune Media Services

According to the National Association of Unclaimed Property Administrators (NAUPA), assets worth over \$32 billion are held by various states just waiting to be claimed by their rightful owners. You may be entitled to some of these assets.

State laws stipulate that under certain circumstances, financial institutions and other companies must turn over unclaimed assets to the state. The funds are listed in a database under your name. Periodically, states update their databases, which are available on the Internet.

Several years ago I was the executor of my aunt's estate. I filed her will with the state's probate office. She had detailed records, and I thought I had complete knowledge of her assets and beneficiaries. I distributed all the assets I was aware of. Apparently, however, she purchased one certificate of deposit for \$3,000 but did not name a beneficiary, and I was not aware of its existence. Her will stated that assets in her name would be shared equally by me and my two

children. A few years after she passed away, my son, Mark, did a search on Florida's abandoned property website and found the unclaimed assets in her name. We supplied the state with the information they required—a copy of the will, and the names and addresses of all the beneficiaries, with signatures. Within 30 days, the state sent us our checks. (Mark and I invested in the Kentucky Derby. Debra, the conservative one, is saving for early retirement.)

There is no statute of limitation for claiming assets. NAUPA's website, [www.unclaimed.org](http://www.unclaimed.org), contains a great deal of information regarding unclaimed property, the consumer-protection laws that benefit you, and links to state websites.

If you are a beneficiary in a will or trust, enter the decedent's name on the website to determine if there are any assets under that name that now belong to you. [➔](#)

