

Investment Thoughts For The Year

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Many of us are making plans and resolutions for the New Year.

As tax season gets into full swing, you will likely be thinking about money, budgets and investment portfolios. With this in mind, we would like to address a few investment-related questions that investors are asking themselves at this time of year.

Is now the right time to invest in stocks?

This is probably the single most common question that investors ask. Wall Street and the financial media have conditioned the American public to believe that investment success is dependent upon proper timing. However, the truth is that it is impossible to consistently guess what the markets will do in the short-term. If you have a good long-term plan in place and you have the

discipline to maintain that plan over time, any time is a good time to invest in stocks.

The solution to the low yield problem is not to chase yield wherever you can find it. The solution is to construct a balanced portfolio of stocks and bonds and to generate cash flow from the portfolio in the most tax-efficient way possible. You should not be preoccupied with the source of your cash flows; one dollar generated from an interest payment has the same pre-tax value as one dollar generated from a dividend, a capital gain or a partial sale of stock. The important thing to recognize is that different securities have different tax treatments, and that junk bonds, dividend-paying stocks, preferred stocks and annuities are often not the most tax-efficient options. Proper management of portfolio taxes and cash flows can

Investment Thoughts For The New Year > 12

Investment Thoughts For The Year *Continued*



be quite complex, so you may want to seek objective, professional advice on how best to structure a portfolio to fit your own tax situation.

Where should I go for advice?

If you lack the expertise to construct and maintain an efficient portfolio (and most people do lack this expertise), you should seek objective advice from a financial professional. When choosing a financial professional, the most important question to ask is, "How do you get paid?"

Financial advisors are typically compensated in one of two ways; either by fees paid to the advisor by the client or by commissions paid to the advisor by a financial products company or an affiliated brokerage firm. When seeking objective advice, you should be aware of how the compensation method can impact the decisions that your advisor makes.

A commission-based advisor often finds himself in the uncomfortable position of having to serve two masters: his client and his brokerage firm. While a simple, inexpensive index-based investment strategy may be in the best interest of his client, a more exotic and expensive strategy may be in the best interest of the brokerage firm and, ultimately, the advisor.

A fee-only advisor is not placed in this uncomfortable position. If the advisor is compensated solely by a direct fee paid by the client, the advisor is not forced to choose between loyalty to the client and loyalty to the brokerage firm. Instead, the advisor's interests are aligned with those of the client and the client can have a high degree of confidence that the advice is objective.

In order for you to be confident that your advisor is always objective and acting in your best interest, it is imperative that you understand how your advisor is compensated and how the compensation method can influence the advice given. The incentives produced by commissions and other brokerage charges have the potential to create conflicts of interest and to leave room for doubt about the integrity of the advice.

If you are embarking on a new or revised financial plan this year, the brief responses above to a few of the most common investment questions should help you get started in the right direction. We hope you enjoyed the holidays, and we wish you all the best in 2013. ■



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