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"There is nothing to fear but fear itself." - FDR

We have all dealt with an erratic economy and volatile markets so far this year. However, my opinion has been that the *fear* associated with the headlines has made people think things are worse than they really are. Although there were reasons to be concerned, we are now seeing some evidence that things may not be as bad as they feel. Oil prices are down from their highs by over 20%, the US Dollar is up about 10% from its low, and on 8/28 a revised reading on gross domestic product showed much better U.S. economic growth than previously reported for the second quarter. My belief is that investors will look back on this period as an *opportunity* long after the fear has subsided. The question is...how are you taking advantage of it?

Nicholson Financial Services, Inc. is an independent firm.

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Nicholson Financial Services

Did You Know...?

Summer 2008

Why Work with a Financial Professional?

If you're like most people, you probably bring your automobile to a professional mechanic for routine maintenance. You see a doctor when you have concerns about your health, and for regular exams. When the need for legal counsel arises, you consult an attorney. All of us rely on the expertise of others. It's no different when it comes to personal finances--most people could benefit from working with a financial professional. Here are some good reasons to do so:

You don't know what you don't know

No one can be an expert on every subject. Managing your finances on a day-to-day basis is one thing; implementing a comprehensive investment plan to fund your retirement while setting aside funds for your child's education is something else. That doesn't mean that you're not capable of doing it, only that you shouldn't underestimate the expertise needed to put together an effective plan. If you're going to go it alone, you'll need to educate yourself, and that brings us to the next point ...

You have good intentions, but never set aside the time

There's an entire industry built around providing individuals with the tools they need to do their own financial planning. Books, magazines, websites, calculators, worksheets, and videos all empower individuals to take a more active role in their financial future, whether they're working alone or with a financial professional. Not one of these tools, however, will help unless you set aside both the time to learn to use the tool, and the time to apply the tool to your own situation. Working with a financial professional forces you to stop procrastinating, and shifts the time commitment from you to the professional.

Doing it all yourself isn't efficient

There's a long list of things that we could do ourselves but choose to pay someone else to do for us instead. For example, you could paint your house, but you may be happy to pay someone else to do it. Why? It's more efficient. You can spend the time working on other things and, if you choose the right professional, it will probably be done faster and better than if you did it yourself. The same goes for working with a financial professional.

You're not objective

It's hard to look at your own situation objectively. Having someone else with experience analyze your financial condition can be extremely helpful. And, in cases where you and your spouse aren't on the same financial page, a financial professional can listen to all concerns, identify underlying issues, and help you find common ground.

Keeping up with change is a full-time job

In the last two years, there have been at least five major pieces of tax legislation signed into law. Even seasoned financial professionals have had a difficult time keeping up with the changes. Not understanding how these changes might affect your financial plan could be dangerous, but understanding the changes takes time and effort.

You see the trees, but not the forest

A good financial professional can help you see the big picture. He or she can show you how your financial goals are related--for example, how you might save for both your child's college education, as well as your own retirement. He or she can work with you to prioritize your goals, implement specific strategies, and choose suitable products or services. A financial professional can also stay on top of your plan to make sure it remains on track, recommending changes when conditions, or your circumstances, dictate.

2008 Year-End Tax Planning Tips

AMT triggers

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

Roth conversions

Individuals who would like to contribute to a Roth IRA but don't qualify because of income limitations might benefit from making nondeductible contributions to a traditional IRA today, and converting the funds to a Roth IRA in 2010, when the income limits no longer apply. Additionally, for Roth conversions in 2010 only, any resulting taxable income will be deferred until 2011 and 2012 (with 50% taxed in each year).

Despite passing three major pieces of tax legislation in the past year, Congress is still considering a host of expired and expiring provisions. While it's likely that several of these provisions will be renewed for the 2008 tax year, the uncertainty creates a challenging planning environment. With the window of opportunity for many tax-saving moves closing on December 31, it makes sense to focus on the basics, while staying ready to take advantage of any late-breaking legislative developments.

Timing is everything

Year-end tax planning is as much about the 2009 tax year as it is about the 2008 tax year. There's a real opportunity for tax savings when you can predict that you'll be paying taxes at a lower rate (for example, if your income will be significantly different) in one year than in the other. If that's the case, some simple year-end moves can pay off in a big way.

For example, you may be able to defer a year-end bonus, or delay the collection of business debts, rents, and payments for services. Similarly, you may be able to accelerate deductions into 2008 by paying some deductible expenses in December rather than in January.

Alternative minimum tax (AMT) facts

If you're subject to the AMT, traditional year-end maneuvers, like deferring income and accelerating deductions, can actually hurt you. The AMT--essentially a separate federal income tax system with its own rates and rules--effectively disallows a number of itemized deductions, making it a significant consideration when it comes to year-end moves. For example, if you're subject to the AMT in 2008, prepaying 2009 state and local taxes won't help your 2008 tax situation, but could hurt your 2009 bottom line.

Legislation signed into law in December 2007 brought the most recent in a long series of temporary "fixes" for the AMT, but this temporary fix (in the form of increased AMT exemption amounts) expired at the end of 2007. If Congress doesn't act, the number of taxpayers subject to AMT could reach 25.7 million in 2008 (Source: Joint Committee on Taxation, JCX-38-07, June 25, 2007). Congress is likely to take some action, but the specifics are uncertain, making it important to stay up-to-date on any new developments.

Don't overlook IRA and retirement plan opportunities

Traditional IRAs (assuming you qualify to make deductible contributions) and employer-sponsored retirement plans, such as 401(k) plans, allow you to contribute funds pretax, reducing your 2008 income. Contributions you make to a Roth IRA or Roth 401(k) aren't deductible, so there's no benefit for 2008, but qualified Roth distributions are completely free from federal income tax--making these retirement savings vehicles very appealing.

For 2008, the maximum amount you can contribute to an IRA has increased to $5,000, and you can contribute up to $15,500 to a 401(k) plan. If you're age 50 or older, you can contribute up to $6,000 to an IRA, and up to $20,500 to a 401(k). The window to make 2008 contributions to your 401(k) closes at the end of the year, while you can generally make 2008 contributions to your IRA until April 15, 2009.

If you qualify, consider whether it makes sense to convert some or all of your traditional IRA assets to a Roth IRA. Funds that you convert, to the extent the funds represent investment earnings and deductible contributions, are considered taxable income. Nevertheless, the potential future tax benefit could outweigh the current tax bill.

Expired provisions likely to be renewed

In addition to AMT relief, watch for action on other provisions that expired at the end of 2007, but are likely to be renewed, including:

- Election to take an itemized deduction for state and local sales tax in lieu of state and local income tax
- Above-the-line deduction for qualified tuition and related expenses
- Above-the-line deduction for certain expenses of elementary and secondary school teachers
- Tax-free distributions from IRAs for charitable purposes of up to $100,000 per person, per year

It's always difficult, at best, to anticipate what Congress will do. In an election year, it's even more unpredictable. If the last few years are any indication, though, it's not unreasonable to assume that we might see some legislation late in the year, so stay alert.

The Three C's of Credit

When you're looking for credit, it's worth understanding what potential creditors are looking for when they're looking at you. Traditionally, they're looking for the three C's: capacity, character, and collateral.

Capacity

Potential creditors want to know if you have the wherewithal to repay a debt. To this end, they'll inquire (usually on an application form) about your income information: How much is it? Does it come from wages, commissions, or some other source? Does it come on a regular or seasonal basis?

On the flip side, they'll also want to know about your expenses, especially any debt obligations. In addition, they'll want to know how many dependents you have and whether you're required to pay any child support and/or alimony.

Of particular interest to potential creditors is your debt-to-income ratio. This ratio compares your monthly recurring debt obligations to your monthly gross income. Your recurring obligations include your mortgage or rent, credit card payments, loan payments--including the one you're applying for--and alimony/child support you pay. Your income includes bonuses, commissions, and any other income you receive, such as Social Security, pensions, and alimony/child support.

***Note:** The debt-to-income ratio is also known as the back-end ratio. A second ratio, called the front-end ratio, compares your rent or total mortgage payment to your gross income, and is used primarily to determine whether you qualify for certain mortgage loans.*

Your debt-to-income ratio goes a long way toward determining whether you are granted credit, how much, and at what interest rates. While many other factors affect your capacity to repay a loan, lenders generally consider debt-to-income ratios of 35% or less to be ideal, 36% to 42% to be manageable, 44% to 49% to be risky, and 50% or above to be unacceptable.

Character

Okay, your sweetheart thinks you're the best thing since sliced bread, and your bosom buddy knows you're one in a million. But that's not the sort of character endorsement creditors are looking for. What creditors want to know is, given that you *can* repay a debt (capacity), *will* you?

When it comes to your credit character, lenders often look for another C: consistency. Have you bounced around from address to address, or job to job? Doing so makes creditors nervous. Longevity in employment and residency indicate stability, and that's what creditors like to see.

Lenders also firmly believe that your past actions are a good predictor of your future behavior. So, they're looking to see if you've used credit before, and what your repayment track record has been like. To do this, they rely primarily on your credit report and your credit score.

Collateral

Maybe you've proven your capacity to repay a loan and your excellent character, but the lender may want something of value to secure the debt, particularly if the loan is for a large amount and/or a long term. If you default on the loan, the lender would be legally entitled to take possession of that item as a form of compensation. Tangible property used in this fashion is called collateral.

Typical examples of consumer loans that involve collateral arrangements are mortgages and home equity loans (failure to repay the loan can result in foreclosure) and vehicle loans (failure to repay the loan can result in repossession). While seizing property in the event of a loan default may not repay the entire balance due, it would at least mitigate the creditor's loss.

The "can'ts" of credit

There are some things a potential creditor can't do when considering you for credit. A creditor can't use your age, gender, marital status, race, color, religion, or national origin to:

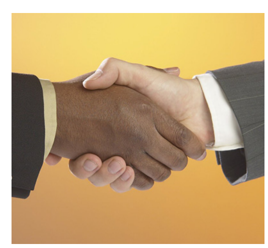
- Discourage you from applying for credit
- Refuse to grant you credit if you otherwise qualify for it
- Make you a loan on terms different from those granted another person with similar income, expenses, credit history, and collateral
- Close an existing account

Furthermore, a creditor can't refuse to consider any public income you may receive, such as Social Security, veterans benefits, or welfare benefits.

Other C's that matter

***Capital:** Assets that could cover a debt (such as investments, bank savings accounts, personal property, or real estate) if your income became unavailable. In some cases, lenders will want you to use your capital as collateral.*

***Conditions:** These are often factors beyond your control, such as the general health of the economy, a growth spurt or a downturn in the industry that employs you, and even (for mortgages) changes in the neighborhood around your property.*



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Ask the Experts

What's a credit score and why should I care about it?

Your credit score is the result of a mathematical formula that's applied to all the information in your credit report (both positive and negative) and then compared to millions of other credit reports. The most common credit score is a FICO score, developed by the Fair Isaac Corporation. A variation of the basic FICO model is used by each of the three major credit reporting agencies: Equifax, Experian, and TransUnion.

Your FICO score is based on five categories, each of which accounts for a percentage of your total score:

- Your payment history: 35%
- An analysis of your debt: 30%
- The length of your credit history: 15%
- Recent inquiries/new credit activity: 10%
- Types of credit in use: 10%

The result is a three-digit number between 300 and 850 that estimates your level of credit risk. The higher the number, the lower the risk.

This number significantly affects your ability to get credit and the terms you're offered. Generally, lenders consider people with scores above 700 to be in good financial health, and worthy of the best interest rates and credit terms. Those with scores below 600 are considered to be financially risky, and may be turned down for credit or offered stricter terms (higher interest rates, lower credit limits, and/or requirements for collateral or a cosigner or both).

To keep your score high:

- Pay your bills on time
- Repair any damage (i.e., overdue payments) as quickly as possible
- Keep your balances on your credit cards low (especially in relation to your credit limits)
- Pay off your debt
- Don't open new accounts you don't need

How do I dispute an unsatisfactory credit card purchase?

If you used a credit card to make what turns out to be an unsatisfactory purchase, you should first seek a refund or a replacement from the merchant that sold you the item. But if you have no luck there, you may have some recourse through the credit card company.

There are some requirements. First, you must have used the credit card to purchase the merchandise for personal (not business) use. Second, if you've already paid the credit card bill on which the sale is listed, the credit card company generally won't help you.

Additionally, the unsatisfactory purchase must have been made either with a charge card issued by the merchant or with a bank's card. If the item was not purchased with the merchant's own card, then the item must cost $50 or more.

Further, unless you used the merchant's own card, the purchase must also have occurred within your home state or within 100 miles of your billing address. Catalogue sales, Internet sales, and orders placed by telephone may be considered in-state purchases. State laws may vary, but these purchases are generally protected.

If you're unable to resolve the matter with the merchant, be sure to write the credit card company within 60 days of when the charge first appeared on your statement. Include in your letter your name, account number, information about the unsatisfactory item, and what you've done to try to resolve the matter with the seller.

The card issuer will usually investigate the matter, and you may withhold payment on the unsatisfactory merchandise until the matter is resolved. (Until then, no interest or late fees will be charged.) If the investigation reveals you are right and the merchant is at fault, you won't have to pay for the item or any finance charges on it. However, if the card issuer doesn't believe the merchant is at fault, you'll be expected to pay for the item. If you want to continue the dispute with the merchant, you'll have to do so in court.