



# Parker Financial Services, LLC

Helping Biz Owners & Professionals Retire On Time

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## Do You Know Who Your Beneficiaries Are?

A name can mean a lot when it comes to beneficiaries of estate assets that normally go directly to heirs without passing through probate, such as employer retirement accounts, individual retirement accounts, annuities and life insurance. Unfortunately, many people make the costly mistakes of forgetting to name names, not changing names or not naming the right names.

**A will does not trump a beneficiary.** One of the first mistakes estate owners make is assuming that a will trumps those named as beneficiaries of non-probate assets. It's the reverse. Say you name your children in your will as heirs of your entire estate, yet an ex-spouse is still named as the beneficiary of your life insurance policy and your 401(k) plan. Your children will end up with your house and favorite golf clubs, but your ex-spouse will end up with the insurance and retirement funds.

**Be sure you have named beneficiaries.** Review all beneficiary-designated assets to be sure beneficiaries are properly named and the forms are signed. To be sure, resubmit the name(s) to the custodian and have them send a signed receipt of the beneficiary form.

**Name a contingent beneficiary.** Some experts even recommend naming two contingent beneficiaries for each primary beneficiary. If the primary beneficiary dies and you don't name a new primary beneficiary before you die, and you haven't named a contingent, the assets will ultimately go to your estate.

**Be sure names match your estate plan.** Make sure the name fits your overall estate plan. For many estates, this is a relatively straightforward issue. But for some, particularly estates with potential exposure to estate taxes, who you name for which assets can have profound financial consequences.

**Don't name your estate as beneficiary.** In doing so, your assets will probably end up going through probate—a time-consuming and sometimes costly process. Second, some assets could go to heirs in a way that would accelerate their distribution and increase the tax bite. Failing to name a beneficiary or having a deceased beneficiary with no contingent will also result in the state naming the estate as beneficiary, with the same consequences.

**Do name your spouse as beneficiary—usually.** Most partners in a marriage name each other for beneficiary-designated assets. Usually, that's fine. But say your estate is large enough to face estate taxes at your death. Then you may want to designate your children or other heirs to receive some assets directly or through trusts in order to take full advantage of the estate tax exemption. Pass all your assets through your spouse first and you "waste" that exemption.

**Don't name minor children as beneficiaries or contingent beneficiaries.** Minor children can't legally control the assets. If you don't take care of it with advance planning, the court will need to name a financial institution as guardian for the assets. Second, minor children can take control of the assets when they reach the age of majority—possibly as early as age 18—which you may not want. Consider naming a qualified trust. Naming a qualified trust as beneficiary or contingent beneficiary might be a good choice in the case of minor children or a spendthrift heir. The trustee can then manage and disburse the assets according to your wishes.

**Be careful naming a charity.** Naming a charity as a beneficiary is usually fine when you want that entire asset, such as an IRA, to go to the charity. But don't mix a charity with other named beneficiaries because without corrective action it could mean negative tax consequences for them.

**Review and update your beneficiaries.** Be sure you don't have an ex-spouse or a deceased primary beneficiary still named. Also common is for younger, single people to name their parents as beneficiaries, only to forget to change their beneficiaries once they are married and have children.

**Other beneficiary complications.** There are numerous other beneficiary complications, including people living in community-property states and holding jointly titled assets. Review your beneficiaries with your financial planner to be sure you've got the right beneficiary for the right property.



## Federal Tax Credits for Energy Efficiency

A federal law passed in 2005 created several significant income tax credits in an effort to promote energy efficiency. Here's a closer look at four tax credits available to consumers.

### Hybrid vehicle tax credit

A tax credit ranging from \$250 to \$3,400 is available to individuals who buy or lease a new hybrid (gas and electric) car. The credit is determined by a complicated set of rules, and depends on the car's weight and fuel economy. You'll have to rely on the manufacturer to provide you with the exact amount. The credit is available for cars purchased in 2006-2010. However, once a manufacturer has sold 60,000 qualified vehicles, the credit phases out. For popular models, the credit is likely to be unavailable after 2006 or 2007.



There are separate tax credits for qualified alternative fuel vehicles, fuel cell vehicles, advanced lean burn technology vehicles, and electric vehicles.

Note: If you bought a hybrid vehicle in 2005, you're entitled to a tax deduction of up to \$2,000.

### Home improvement tax credit

Tax credits are also available if you purchase and install any of these energy-efficient products in your existing home:

- Exterior windows (including skylights)--10% of the total cost, up to \$200
- Insulation, exterior doors, or pigmented metal roofs--10% of the total cost, up to \$500
- Central air conditioning, electric or geothermal heat pumps, or water heater--up to \$300
- Furnace or boiler--up to \$150 and/or \$50 for an efficient air-circulating fan

The maximum credit is \$500 for all improvements combined, and applies to equipment installed in your home during 2006-2007. Equipment must meet or exceed certain specifications to qualify. You can get a summary of these specifications online at [www.energystar.gov](http://www.energystar.gov).

*Unlike a deduction, which reduces the amount of income subject to tax, a credit directly reduces the tax itself.*

**Equipment must meet certain specifications to qualify for the home improvement tax credit. You can get a summary of these specifications online at [www.energystar.gov](http://www.energystar.gov).**

### Solar energy systems

You can claim credits for installing solar energy systems in your home during 2006-2007. You can take a 30% credit up to a \$2,000 cap for installing a photovoltaic system, and you can take a separate 30% credit up to \$2,000 for solar hot water heating.

Photovoltaic systems must provide electricity for your home, and meet applicable fire and electrical code requirements. Solar hot water heating systems must use solar power to provide at least half of your home's hot water, be certified by the Solar Rating and Certification Corporation (SRCC), and must be used exclusively for purposes other than heating swimming pools and hot tubs.

### Fuel cell power plants

Homeowners are also allowed a 30% tax credit in 2006-2007 for the installation of a qualified fuel cell power plant up to a maximum of \$500 for each 0.5 kilowatt of capacity. A fuel cell power plant converts fuel into electricity using electrochemical methods. Unfortunately, fuel cell technology is not yet commercially available for residences (just businesses), and may not become available during the two years this credit is in effect.



### Eligibility requirements

According to the IRS, taxpayers can rely on a manufacturer's certification that an item qualifies for a tax credit. However, you need to make sure all other qualifications are met. For example, home improvements apply to principle residences--not vacation homes--within the United States only. See a tax professional or go online at [www.irs.gov](http://www.irs.gov) for eligibility requirements.

### It's not easy being green

Even with the tax savings and lower energy costs these investments should produce, they may not always make financial sense. You should make sure the numbers add up before you buy.

Note: You may also be eligible for utility or state rebates, as well as state tax incentives for energy-efficient vehicles and home improvements.

## Core/Satellite Investing

While the core/satellite approach to investing sounds like a space-age strategy, it's nothing new. Long popular with institutional investors, it's gaining more attention from individual investors who want to manage risk, return, and investment costs.

### A blended approach

The core/satellite approach is essentially an asset allocation model that seeks to resolve the old, ongoing debate between indexing and "active" investing. Advocates of unmanaged, "passive" investing have long argued that the best way to capture overall market return is to use low-cost market-tracking index investments.

But proponents of managed, "active" investing believe that it's possible to beat the market and generate higher returns by hiring skilled managers, picking the right investments, and taking advantage of market trends.

Instead of dictating that you follow one investment approach or the other, the core/satellite approach blends the two together. With the core/satellite approach, you generally keep the bulk or "core" of your investment dollars in cost-efficient investments designed to predictably capture market returns by tracking a specific benchmark. The balance of the portfolio is then invested in a series of "satellite" investments, in many cases actively managed, which typically have the potential to boost returns and lower overall portfolio risk.

### Controlling investment costs

Devoting a bit of—rather than the bulk of—your portfolio to actively managed investments can allow you to minimize investment costs that may reduce returns.

For example, consider a \$400,000 portfolio 100% invested in actively managed mutual funds with an average expense level of 1.5%, producing annual expenses of \$6,000. If, instead, 70% of the portfolio was invested in a low-cost index fund or exchange traded fund (ETF) with an average expense level of .25%, annual expenses on that portion of the portfolio would run \$700 per year. If a series of satellite investments with expense ratios of 2% are then used as vehicles for the remaining 30% of the portfolio, annual expenses on the satellites would be \$2,400. Annual fees for the

core and satellites would total \$3,100, producing savings of \$2,900 per year. Those savings could be used toward financial planning services, or reinvested back in the portfolio to produce additional growth.

### Composing your universe

No rules govern the size or composition of the core or its satellites, and many variations are possible. The size of the core relative to the satellites essentially depends on your investment goals, and how much you're willing to have your overall portfolio results differ from the performance of the core benchmark.

Critical factors in a core/satellite approach are the choice of asset classes and the asset allocation between the core and the satellites, which should reflect your investment goals and risk tolerance. Popular core investments include index funds and ETFs that track specific benchmarks such as Standard & Poor's

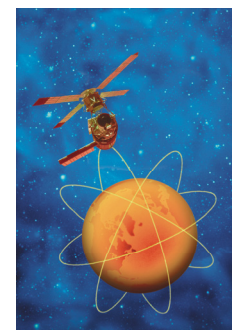
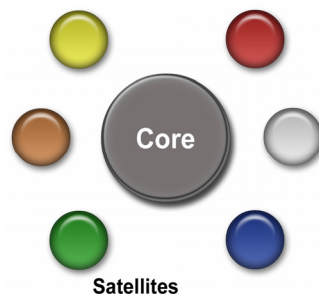
500 Index (S&P 500), the Russell 2000® Index, the NASDAQ 100, and various international and bond indices. Other popular core investments may track specific style or market-capitalization benchmarks in order to provide a value versus growth bias or a market capitalization tilt.

While core holdings are generally chosen for their low-cost ability to closely track a specific benchmark, satellites are generally selected for their potential to add value, both through enhancing returns or by reducing portfolio risk. Here, too, you have many options. For example, satellite investments might include mutual funds, hedge funds, private equity, real estate, stocks of emerging companies, or sector funds, to name a few. Great candidates for satellite investments include less efficient asset classes where the potential for active management to add value is increased, particularly where those asset classes offer returns that are not closely correlated with the core or with other satellite investments. Since it's not uncommon for satellite investments to be more volatile than the core, it's important to always view them within the context of the overall portfolio.

Although the core/satellite approach isn't right for everybody, it can offer real advantages for some investors. A financial professional can help you learn more about this approach and how it might fit into your investment plan.

*Although there are no hard and fast rules, core holdings are usually selected in order to closely track a chosen benchmark at low cost.*

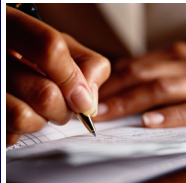
*Satellites are typically low correlation, alpha-seeking investments—those that have the potential to substantially outperform a benchmark.*





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## Ask the Experts



### What is an option ARM?

An adjustable rate mortgage (ARM) that offers different payment choices each month is called an option ARM. Each month, you select the payment option appropriate for your budget.

Option ARM payment choices usually include:

- **Minimum payments**--These payments cover only a portion of the interest due for the month, resulting in unpaid interest that's added to the unreduced principal balance you owe.
- **Interest-only payments**--These payments cover all interest due for the month, but don't reduce the principal balance.
- **Fully amortizing 30-year payments**--These payments reduce both interest and principal on a regular amortization schedule.
- **Fully amortizing 15-year payments**--These payments accelerate total loan

repayment and result in faster equity buildup and overall interest savings.

Option ARMs appeal to people with fluctuating income (the self-employed, commissioned workers, or those who experience seasonal income variations) because they can pick the monthly payment best suited to their cash flow. However, given the flexible payment options and their liberal qualifying ratios, these mortgages are also sought by people who want to buy more house than they can otherwise afford.

Borrowers should be aware that consistently making minimum monthly payments will cause their mortgage balances to increase. These increases in turn will cause the borrower's loan to be refigured periodically; as a result, the minimum monthly payment amount will then increase, perhaps substantially.

As with any financial decision, carefully weigh both the risks and benefits before accepting an option ARM.