

Saving With Minimal Pain

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the entertainment center for many families and digital TV expanding free offerings in major cities, cable television may not be a priority. Look at all the bills you pay on a monthly basis and ask whether or not you still get enough benefit to make the cost worthwhile. If you want to keep a particular service, contact customer service to ask whether there is a better plan or any other way to reduce your monthly costs. You'd be surprised how often a quick call can reduce your monthly expense.

*Beware of little expenses;
a small leak will sink a great ship.*

—Benjamin Franklin ■

Will 2011 Bring the Largest Tax Hikes in History?

Time is running out for Congress to address the expiration of the 2001 and 2003 Bush tax cuts. Without legislative action, effective January 1, 2011 the following changes will take place:

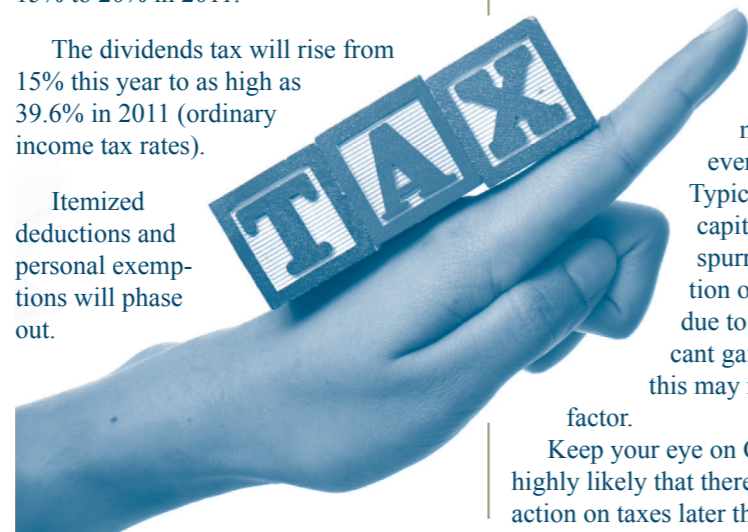
Personal income tax rates will rise:

- The 10% bracket rises to an expanded 15%
- The 25% bracket rises to 28%
- The 28% bracket rises to 31%
- The 33% bracket rises to 36%
- The 35% bracket rises to 39.6%

The capital gains tax will rise from 15% to 20% in 2011.

The dividends tax will rise from 15% this year to as high as 39.6% in 2011 (ordinary income tax rates).

Itemized deductions and personal exemptions will phase out.



- The “marriage penalty” (narrower tax brackets for married couples) will return from the first dollar of income.

- The child tax credit will be cut in half from \$1000 to \$500 per child.

- The standard deduction will no longer be doubled for married couples relative to the single level.

- Dependent care and adoption tax credits will be cut.

Estate taxes will revert to a 55% top death tax rate on estates over \$1 million.

The uncertainty surrounding future tax rates remains a challenge for investors. The potential for high personal income tax rates will make tax planning even more critical.

Typically, increases in capital gains taxes have spurred earlier recognition of gains. However, due to the lack of significant gains in recent years, this may not be a significant

factor.

Keep your eye on Congress – it is highly likely that there will be some action on taxes later this fall. ■

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Financial Insight

Fall 2010

Why Add Alternative Assets to Your Portfolio?

By Charlie Toole, CFA
Assistant Vice President,
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Over the past five years, the alternative asset class has emerged as a new category for individual investor portfolios. Alternatives were made famous by the Harvard and Yale endowment managers who improved their funds' returns and diversification by adding alternatives to their portfolios. In the past, alternative asset classes were only available to large institutional investors like pension funds and endowments, but in recent years many mutual funds and exchange traded funds (ETFs) have been launched that give individual investors low cost, easy access to alternatives. Braver Wealth Management has included alternative asset class holdings in Asset Allocation and Strategic Portfolio investment programs for many years.

An alternative asset is an investment or asset class that is not a traditional stock or bond. Historically, alternative assets have had low correlations to both stocks and bonds. This lower correlation is attractive because it can protect the value of portfolios when stocks or bonds decline. For example, in an environment where inflation is higher than expected, both stocks and bonds are likely to perform poorly but alternative asset classes, like commodities and real estate, perform well. Academic research has shown that if you build a portfolio of assets with low correlations to one another, over time your total portfolio return will be better and the variance of your returns will be lower. Essentially, adding alternatives allows the portfolio to earn the same return for a lower amount of risk.



Charlie Toole

There are four major alternative asset classes:

Real Estate Investments are defined as direct ownership in residential properties or commercial properties, such as office buildings and shopping malls. Real Estate Investment Trusts (REITs) are an investment vehicle backed by commercial and residential properties. The rent collected from the REIT owned property is distributed to the REIT shareholders in the form of dividends. The specific tax structure of REITs stipulates that 90% of profits must be paid to shareholders as a dividend.

There are many funds or ETFs that are specific to real estate. An example is the Dow Jones StreetTracks REIT (ticker: RWR).

Commodities are physical assets and they are separated into two types; hard and soft. Hard commodities such as gold, oil, natural gas, and silver

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Request Your Free Annual Credit Reports

The Fair Credit Reporting Act guarantees individuals access to a free credit report from each of the three nationwide reporting agencies — Experian, Equifax, and TransUnion — every 12 months. It is a good idea to make a practice of ordering your free reports each year. For starters, you want to make certain no accounts have been opened in your name that you haven't authorized. And second, you want to be sure that all information on the report is accurate.

The official U.S. Federal Trade Commission phone number to request your free report is 1-877-322-8228. This call can take up to ten minutes because they need to verify your identity. You *continued on page 2*

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are extracted from the earth while soft commodities such as wheat, cotton, corn, and oranges are grown. Buying the physical commodity is not always practical because the physical asset has to be stored and the cost of storage can be very high. Soft commodities are not the traditional “buy and hold” investment because your oranges will spoil!

The Credit Suisse Commodity Return Strategy (ticker: CRSAX) is a mutual fund that invests in a diversified basket of hard and soft commodities. Another commodity vehicle is the Spider Gold ETF (ticker: GLD), which is an ETF that purchases and stores gold bullion.

Hedge Funds are pooled investment vehicles where the hedge fund manager uses various strategies to try to generate positive returns in every market environment. The fund manager uses techniques like shorting stocks, rapid trading, or investing in derivatives like options and futures contracts.

There are drawbacks to investing in these funds. Investors are required to meet certain levels of liquid assets and the minimum investment can be over one million dollars. Also, the fees for hedge funds can be high; there is typically a standard management fee,

usually 2% per year, and an additional performance fee, usually 20% of the return. Finally, there are restrictions on when you can withdraw your money; typically hedge funds let you take money out only on a quarterly basis. Hussman Strategic Growth (ticker: HSGFX), Gateway Fund (ticker: GATEX), and Ivy Asset Strategy (ticker: WASAX) are mutual funds that use hedge fund strategies. In each of these funds, the portfolio managers use derivatives to try to reduce market risk.

Private Equity Funds are also pooled investments, but unlike hedge funds, these vehicles do not invest in stocks of companies, rather they buy the whole company! Large, publicly traded companies like Toys R Us and TXU are two examples of companies that were taken private by private equity funds. The goal of private equity is to buy a company, change its capital structure (the debt and equity mix), improve its operations, and then take the company public again in a few years. The investors in a private equity fund receive large payouts when the company is taken public.

Like hedge funds, private equity funds charge management fees and performance fees. These funds typically require investors to lock up their money for multiple years. The long lockup is necessary because the private equity fund needs to find companies to buy, fix them, and take them public over a period of years. There are limited ways in which an individual investor can access private equity. PowerShares offers a Global Listed Private Equity ETF (ticker: PSP) or alternatively, an investor could buy stock directly in a private equity firm like BlackRock (ticker: BLK). ■

Request Your Free Annual Credit Reports

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To Request Your Free Annual Credit Reports Call:
1-877-322-8228

have the option to request all three reports at once or to order one report at a time. By requesting the reports separately, you can monitor your credit more frequently throughout the year. If you see any items that are incorrect, the report will provide an address or 800# to notify the credit bureau of any inaccuracies.

Be wary of ordering free reports from any other sources; you are supplying your social security number and personal data with the request so you

don't want to take chances. You should not be charged since by law the credit reports must be provided FREE from the three major reporting agencies once per year. You are also entitled to a free report if you are refused credit, are currently unemployed and looking for a job (many employers now check credit reports, so you have a right to know what they will see), or are a victim of identity theft. ■

Saving With Minimal Pain

Financial security is built by accumulating assets and investments that will see you through retirement, a college education, a family crisis, or even the start up costs of a new business. If you don't have the option of increasing your savings from more income, you need to look at how you can increase savings by reducing spending. A natural starting point might be to cut back on luxuries that add up, such as your daily latte. But before you eliminate the little pleasures, there are some bigger ticket items to consider.

Refinance

The largest single monthly expense for many families is their mortgage payment. It may also be the easiest to cut given today's low interest rate environment. Rates for 30-year fixed-rate mortgages averaged 4.27% on October 12, 2010, the lowest level recorded since 1970. According to the *Wall Street Journal*, better deals can be found at smaller banks and credit unions than the national banks. These companies, along with mortgage bankers which originate loans for investors, may be less “formula-driven” and have more flexible lending standards.

How much difference could a reduction of 1% make in your payments? The table below shows payment amounts for 30, 20 and 10-year fixed-rate \$300,000 loans. Depending upon your circumstances and how long you expect to be in your home, adjustable rates may save you even more. Just be sure you understand how much your costs can vary over time if your mortgage is not fixed.

Monthly Payment for \$300,000 Mortgage			
	30 Year Fixed	20 Year Fixed	10 Year Fixed
6.0%	\$1,799	\$2,149	\$3,331
5.0%	\$1,610	\$1,980	\$3,182
4.0%	\$1,432	\$1,818	\$3,037

Source: www.bankrate.com mortgage calculator.

If you have a second mortgage, a car loan or even outstanding credit card debt, refinancing could make a noticeable difference in your monthly expenses. Before you refinance, however, make certain you understand fully what closing

costs and final payment will be to ensure you will experience real savings.

Find a Cash Rebate Card

If you are paying a fee for your credit card or debit card, shop around. No-fee programs abound. Your current credit card company may be able to find a no fee program that fits your needs if you talk with customer service. Always make certain to pay off your balance each month. Unless you have a specific goal in mind, cash back is the best reward. While cash rewards have gotten smaller over the past few years, you can still find 1% offers around. Visit www.nerdwallet.com to compare various credit card offerings.

Consolidate

Some companies will offer you discounts for consolidating your business with them. Insurance companies, banks, financial advisers and even telephone/cable/internet companies have programs that reduce rates the more accounts or features you use.

Shop Around for Your Insurance Coverage

How long has it been since you priced out your insurance policies? You may be passing up opportunities to save on auto, home, life, disability and more. In particular, life insurance rates have declined significantly as mortality tables have been updated to reflect improving longevity. For home or auto rates, consider the difference increasing your deductible will make to your premium payments. Know when your policy coverage period ends and contact your agent two months in advance so they can re-quote your policy with a few different options for coverage and deductibles. This is worth doing every few years.

Re-evaluate Monthly Services

Are you still paying for newspaper delivery? If so, check whether better rates are available. As more readers go online, papers are offering deals to keep subscribers. If your family has cell phones for every member, it may be time to consider whether or not you need a land line for a telephone. Or a different cell phone plan may offer you the same benefits for less cost. With the computer becoming

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Cannot people realize how large an income is thrift?
~Cicero