

**SPECIAL  
POINTS OF  
INTEREST:**

- Retirement Goals Review
- Effectively Manage Credit
- Advantageous Municipal Bonds

**INSIDE  
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## Beat the Big Three "What Ifs"

In 2007, the price of oil rose an astounding 57%.<sup>1</sup> A lending crisis brought one of Wall Street's venerable investment banks to its knees. Inflation jumped above 4% for the first time in nearly two decades.<sup>2</sup>

What do these events have in common? They were largely unexpected. Let them serve as a reminder that other unexpected events are lurking out there, waiting for their time in the sun.

As you work toward your financial goals, have you considered whether you are also preparing for the unexpected? Taxes, inflation, and medical costs – among other factors – could have an unanticipated effect on your retirement. There may be little you can do to combat them once you are no longer working.

**What if medical costs are more than anticipated?** It is becoming increasingly common for people to retire without the benefit of employer-sponsored health insurance. In 2006, just 19% of employers with 500 or more employees offered health benefits to Medicare-eligible retirees, down from 40% in

generous inflation can be. But inflation made a serious comeback in 2007, rising to 4.1%, which is more in line with the 30-year average of 4.2%.<sup>5</sup>

**What if taxes go up?** Current tax rates are low by historical standards, but the nation is facing huge obligations to Medicare

### What Could Happen in 2011?

The 2001 and 2003 tax cuts are slated to expire after 2010. Comparing current tax rates with pre-2001 rates could serve as a glimpse of the 2011 tax landscape.

Income	Federal income taxes			
	Single filers		Married filing jointly	
	1999	2008	1999	2008
\$ 50,000	\$ 7,263	\$ 6,606	\$ 5,085	\$ 4,013
\$ 75,000	\$14,263	\$12,856	\$ 9,427	\$ 7,763
\$125,000	\$29,379	\$26,472	\$23,427	\$19,463

Federal income tax liability for taxpayers who take the standard deduction and have no dependents (does not account for the alternative minimum tax). Amounts are rounded to the nearest dollar.

Source: Tax Foundation, 2008

1993.<sup>3</sup> Without employer health insurance, a 65-year-old couple retiring this year will need an estimated \$225,000 to cover their medical expenses in retirement.<sup>4</sup>

**What if inflation is higher than you anticipated?**

Looking at the 2.7% average annual inflation rate of the past 10 years could make you forget how dan-

and Social Security. Congress so far has quashed any effort to make permanent the lower tax rates passed in 2001 and 2003, making it seem more likely that it will allow higher taxes in order to help meet the country's obligations.

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# Your Best Interest

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If you don't know how you would react to these or other unexpected developments, it might be time to evaluate whether your long-term strategy is underestimating the potential effects of taxes, inflation, and medical costs. A review could help determine whether you are still contributing enough money to meet your goals, whether your risk level is appropriate, and whether your asset allocation needs to be adjusted.

Obviously, there's no way to forecast the future. The best approach may be to slightly overestimate what it will take to achieve the retirement of your dreams.

1) *Journal of Financial Planning*, March 2008

2, 5) Thomson Financial, 2008 (consumer price index for the periods 12/31/1997 to 12/31/2007 and 12/31/1977 to 12/31/2007)

3) Employee Benefit Research Institute, 2007

4) *InvestmentNews*, March 17, 2008

## Your Best Interest

When it comes to debt, people give themselves credit — lots and lots of credit. At the end of 2007, Americans

owed \$941.1 billion in credit-card debt.<sup>1</sup>

Successfully managing credit is crucial, but there are some arcane credit-card rules that may affect your balance, your interest rate, and even your credit score.

- **The more you use, the more you lose:** Your credit score is based in part on how much credit-card debt you have in relation to your credit limit. Experts recommend using no more than 10% of your available credit. Over 50% could actually reduce your credit score.<sup>2</sup>
- **Bare minimum:** About 60% of Americans carry a balance on their cards from month to month, including

some who pay only the minimum required payment.<sup>3</sup>

With a \$2,000 balance and a 14% interest rate, paying only the minimum payment each month would take over 14 years to pay off the debt and the interest.<sup>4</sup>

- **Universal default:** If your credit-card agreement has a universal default clause, you could be hit with a higher interest rate if you are 30 days late paying any of your credit cards or other payments, such as your mortgage, car loan, and even your phone bill.

1, 3) CardTrack.com, 2007—2008  
2, 4) CNN.com, 2008

### THE COST OF A CREDIT CARD

By carrying credit-card debt over from month to month, not only is this hypothetical individual paying a significant amount of interest, but he or she is also missing out on the opportunity to pursue potential investment returns.

#### Credit-Card Debt

- \$10,000 balance
- 14% interest
- \$155 monthly payments
- 10-year payoff

-\$18,632

#### Stock Investment

- \$155 monthly investment
- 8% annual rate of return
- 10 years

\$28,701

**\$47,333 difference**

This hypothetical example is used for illustrative purposes only and does not represent any specific investment or credit card. It assumes an 8% annual rate of return on the stock market investment and a 14% annual interest rate on the credit cards. It also assumes a 10-year repayment schedule for the credit-card debt with no new charges added. Actual results will vary. Investments with the potential for higher rates of return also carry a greater degree of risk of loss.

# Put Some Infrastructure in Your Portfolio

## Tax-Free Possibilities for Upper-Income Earners; Yield to Call or Maturity?

The first half of 2008 was notable for stock market volatility, low interest rates, and the increasing likelihood of higher taxes by the decade's end. This cocktail of malaise bodes well for what is often a ho-hum corner of the debt market: municipal bonds.

The normally placid muni bond market has been roiled by a confluence of variables related to the stock market, slow economic growth, and credit-market woes. One result has been yields high enough to get the attention of investors who normally stick to Treasuries.

Don't let the muni market's quiet reputation fool you. Finding opportunities in the municipal bond market means navigating a complex landscape.

## Tax Rates

Municipal bonds are issued by government agencies to pay for public works projects such as roads, sewers, and stadiums. In general, the federal government cannot tax investment income paid by state and municipal governments, and vice versa. So just as income from Treasuries is typically exempt from state and local taxation, so too is municipal bond income exempt from federal taxation, with some exceptions. If a bond was issued by a municipality outside the state in which you reside, the interest could be subject to state and local income taxes. If you sell a municipal bond

at a profit, you could incur capital gains taxes. Some municipal bond interest could be subject to the federal alternative minimum tax.

These tax benefits allow the issuing agencies to pay lower interest rates than comparable taxable bonds, so investors in the lower tax brackets have little incentive to accept the normally lower muni yields. However, the higher an investor's tax rate, the greater the potential return

course. If revenues dry up, it can endanger interest payments. In general, municipal bonds issued by cities and towns tend to carry slightly more risk than those issued by states.

## Call Risk

Some municipal bonds can be repaid early at the issuer's option. These *callable bonds* pay one rate if the issuer lets them mature, but a lower rate if it pays them off early. If a

Calculating the Taxable Equivalent Yield			
Follow these steps to calculate the taxable equivalent yield on a tax-exempt investment.			
	Example	Example	You
1. Enter the expected yield on a tax-exempt investment.	6%	6%	___%
2. Enter your federal marginal income tax rate.	25%	35%	___%
3. Subtract your tax rate from 100%. (100% - line 2)	75%	65%	___%
4. To calculate the taxable equivalent yield, divide line 1 by line 3 and then multiply by 100. (line 1 ÷ line 3) x 100	8%	9.23%	___%

This hypothetical example is used for general illustrative purposes only and does not reflect the performance of any specific investments. Possible state taxes, capital gains taxes, and alternative minimum taxes are not considered. This formula is only one factor that should be considered when purchasing securities and is meant to be used only as a general guideline when calculating the taxable equivalent yields on agency and Treasury securities.

from a municipal bond. (See worksheet.)

## Risk Rates

Municipal bond default rates are low. Even munis carrying S&P's triple-B rating (three steps below the highest rating) have had a 0.32% historical default rate.<sup>1</sup> However, the risk level can vary depending on the type of bond. A *general obligation bond* is backed by the full faith and credit of the issuing agency, which may levy taxes to meet interest obligations. A *revenue bond* is typically paid by the proceeds from a project, such as greens fees collected on a municipal golf

bond is callable, investors can expect to earn the yield to call rather than the yield to maturity. Yields and market value will fluctuate so that your investment, if sold prior to maturity, may be worth more or less than its original cost.

If you don't already own municipal bonds, now may be a good time to consider whether they may be appropriate for your situation. If you already own some munis, it may be a good time to review your position in light of this year's unusual activity.

1) *The Wall Street Journal*, March 3, 2008

# What's New at Brandywine

You will start to hear a new voice on the other end of the line when you call the office. This month we are pleased to welcome a new associate to our firm. Stephanie will be working for us part time for the next year while she finishes her degree at La Salle University. Her main duties will be assisting myself and Justin with the daily office functions as well as learning how we operate. So if a Stephanie calls you from our office, please don't hang up on her...she's an important member of our team. As we've mentioned in previous editions, you've seen a few facelifts of our emails. First the Market Pulse, then the Newsletter, and finally the Just The Facts. We are always trying to be at the pinnacle of our industry and striving to improve every area of our lives is one way of achieving this goal. We value your feedback and please

let us know

## From Raymond's Desk

First, I would like to welcome our new addition to the BFG Family, Stephanie Johnson. She will be assisting Justin and me with daily office tasks and compliance issues. I have freshly returned from our annual Broker/Dealer conference in Las Vegas. It was a large event with almost 350 professionals from across the U.S. in attendance. I asked one of my colleagues, a seasoned advisor, what he was sharing with his clients during this challenging environment. He said, "I ask my clients if they look at the statement they receive every month that tells them the value of their home?" And of course his clients look at him with a puzzled look (or if over the phone a brief silence) and respond "huh, I don't get a statement for the value of my home each month." He continues to explain that, more than likely, the value of their home has decreased by at least 20% or more in the past 12 months. Furthermore, in some cases, their home may be more valuable than their investments and yet they are much less concerned with the loss in their home value. In short, his point is to take a long term approach as, difficult as it may be, during these challenging times and focus on their goals. You will not be spending ALL of your assets this year and in most cases not for the next 10 years or more. Bottom line *this too shall pass* and equities will once again rise. As always, if you are uncomfortable with your Risk/Return profile please contact our office to review.

## From Justin's Desk

So, the Bachelor Party received a lot of rain and then more rain. We didn't float our fanny's down the Susquehanna because of the bad weather, but all-in-all, we had a good time. I am a huge fireworks fan and my older brother who lives in Pittsburgh drove to Ohio to pick up a bunch of "stuff." In PA, buying fun fireworks is illegal and by fun I mean things that are a little more risky than snakes and sparklers! We spent most of the night lighting up the skies. 31 days till the wedding. I have more plates and gadgets from the two wedding showers Francesca had than I know what to do with. Most of the stuff is still in boxes...not too sure if I'll ever use the ice cream attachment to the Kitchen Aid mixer. I have new drinking glasses that I'm not allowed to use..."they are for formal occasions" is what I'm told. I don't even know if we are supposed to use the stuff prior to the wedding...not sure if it's bad luck or not.

## From Stephanie's Desk

I am from the Annapolis, Maryland area and love my hometown, however, I am enjoying the Philadelphia area to its utmost potential! I grew up either traveling the east coast drag racing with my father or playing and coaching lacrosse. Drag racing is a passion of mine that I enjoy doing to this day, every chance I can get. I come from a family of seven, with an outstanding mother and father and four older sisters. I have also, recently become a new Aunt to my wonderful nephew, Caleb Wilson, who is 3 weeks old.

Becoming a member of Brandywine Financial Group has been a very pleasurable experience! Ray and Justin are great people to work with and make my job something I look forward to coming to everyday. I have yet to meet most of you, however, I look forward to the grace of your presence in the near future.