



Bert Whitehead Named in Top 100 Wealth Advisors

October 2006

The Top 100 Wealth Advisors

Worth's annual list of the best of the best



Bert is again named as one of the top 100 'Wealth Advisors' by Worth Magazine in the October 2006 issue.

We're used to him receiving this honor. Most of us don't realize is that he is one of fewer than 10 advisors on the list that have made it every year it has come out since 1994!

This issue of Worth hits the newsstands on September 12, 2006

Congratulations Bert!

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PBS Update

Thanks to all the Michigan clients who will be part of the audience for the taping of Bert's PBS special on October 5, 2006.

Note PBS is asking all attendees to arrive by 5:45 PM!

If you have not responded, but are still interested in attending, please note:

Join us at **Detroit Public TV's New Center Studios** on **Thursday, October 5th** to be a part of the studio audience as **Bert Whitehead** shares his invaluable knowledge on financial planning in his first national PBS program taping.

Facing Financial Dysfunction
National PBS Program Taping/Finance Lecture

Thursday, October 5, 2006

6-11 pm (arrive 5:45 pm)

Detroit Public Television, New Center Studios

7441 Second Avenue, Detroit, MI 48202

Free Event

R.S.V.P. to Jamie at jamiej@dptv.org or call 313.876.9506 to reserve your seat at the taping.

THE ALLIANCE OF CAMBRIDGE ADVISORS - COMMITTED TO CLIENT SUCCESS

by Karen Folk, Ph.D., CFP®

A few years ago, I had clients who were considering building a home. As their financial advisor, I was asked for advice on matters such as the construction process and how it would be financed. Having no experience in this area, I posted a question on the Alliance of Cambridge Advisors online discussion forum asking for help from someone with expertise. Within an hour, I was on the phone with a Cambridge advisor in California who had been a mortgage bank officer before starting her financial planning business. She was able to educate me on the financing process, including pitfalls to avoid and what the bank should do to make sure the subcontractors got paid. In turn, I was able to provide my clients with sound advice.

Another Cambridge advisor needed a very quick response for a medical doctor who was heading to a meeting to begin negotiations to sell his practice. Within minutes of posting a question on the Cambridge discussion forum, the advisor received information from another advisor about resources to tap and general information on sales of medical practices. That information enabled the doctor to go into the negotiations with confidence.

These two stories are examples of what has been referred to as the Cambridge "brain trust." The Alliance of Cambridge Advisors now numbers over 100 credentialed advisors across the United States who operate in a non-competitive, collegial environment. The fact that many have come from previous successful backgrounds as CPAs, tax attorneys, educators, loan officers, insurance agents, pension fund investment analysts, and even state revenue agents provides a wealth of readily available resources for clients of all Cambridge advisors. To use a sports analogy, we have bench strength.

Our clients reap other benefits from our membership in the non-profit Alliance of Cambridge Advisors. In addition to helping with specific client situations, the online discussion forum

serves as a bulletin board for advisors to post the latest changes in the tax laws or strategies that can save clients money. One of the highlights of our annual Cambridge update conference is the "Best of Cambridge" session where advisors share their best financial planning or business ideas of the past year.

Providing volunteer service to the Alliance is a requirement for member advisors. We all benefit from those who serve on the directed portfolio team, selecting a wide range of inexpensive, consistently performing, no-load mutual funds and then sharing that information quarterly. Other

advisors write and edit this Financial Focus quarterly newsletter. And our clients indirectly benefit from the many other advisors serving on less visible teams providing services to Alliance members. Some Cambridge advisors have made succession agreements with other advisors in their local area. In the event of an advisor's death or disability, other Cambridge advisors would help clients transition to a new advisor.

Clients regularly ask me for referrals to Cambridge advisors in other states for their adult children, sisters, brothers, parents, or other relatives. When I refer a client's relatives to another Cambridge advisor, I know that they will be receiving consistent services of great value to "real people," i.e., folks who have to work for a living. The advice they receive will be based on the shared Cambridge concepts of integrating tax planning, investment advising, and financial planning in a way that considers all of a client's circumstances, goals, values, and aspirations. I know that they will be dealing with a professional who has committed to the Cambridge ethics and with whom I may have a personal relationship. I know that their Cambridge advisor will be there to help them adjust their financial plan as life goals change or the unexpected happens, just as I am for my clients. ■ ■ ■



financial focus

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ALLIANCE OF
**CAMBRIDGE
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THE BEST PLANNERS. THE PERFECT SYSTEM.

This issue of *Financial Focus* is provided by a member of the Alliance of Cambridge Advisors,

fee-only advisors helping real people transform their lives through holistic financial planning. For more information, or to locate a Cambridge Advisor in your area, visit us on-line at <http://www.cambridgeadvisors.com> or call toll-free 888-834-6333.

MAXIMIZING FINANCIAL AID FOR COLLEGE

by Patricia A. Konetzny, CFP®, EA

We all hope our children will earn an academic or athletic scholarship, but by the time they graduate from high school, most of us face the harsh reality of college tuition, along with room and board. Besides encouraging them to get a good summer job, it's too late for us to make big changes. Beyond just hoping for a full-ride scholarship, here are some additional strategies to help arrange college finances. Most of them need to be done before January of the year your child will start college.

Everyone applying to college (and annually thereafter) should complete the Free Application for Federal Student Aid (FAFSA) forms to determine eligibility for aid. Even if you plan to pay 100% of the cost, life often brings unexpected changes, such as job loss or unexpected medical bills. If the college has the FAFSA form you complete annually on file, it's much easier to explain any change to the school and request a review of your award package.

So where's the best place to start? No later than early December prior to graduation, spend a couple of hours on www.collegeboard.com familiarizing yourself with the FAFSA form and entering your

financial figures. It's all in the numbers, so the time you spend understanding how they flow will pay off. Parents' income and assets, the number of family members going to college, and the student's income and assets are what count the most.

There are two main formulas used to determine your Expected Family Contribution (EFC): The Federal Methodology (FAFSA) is used to calculate federal aid; the Institutional Methodology (CSS/PROFILE) is used by many (although not all) private colleges to calculate eligibility for institutional aid.

Look up the cost of the schools your child is considering. If the school costs \$8,000 per year and

your EFC is \$21,000, there's no point in trying to lower your EFC. You will be expected to pay everything. If you've decided to send her to an expensive private school for \$40,000, you have some work to do. Think of the day you file the forms as a photograph of what you'll look like to the college. It can be a totally informal photo or you can put on a nice shirt and comb your hair. Find out what percentage of need is met by the school. (Private schools often meet 70%-100%.) While need is often met with loans (which must be repaid), the award package may also include grants and scholarships (which provide "free" money).

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REBALANCING YOUR INVESTMENT PORTFOLIO

by Stewart Farnell, Ph.D., CFP®

Every year the work of financial planning includes a review of your investment portfolio. We compare the actual percentage of each asset class in your portfolio (such as large cap domestic stock, international stock, money market funds) to your target percentage for that class. If you have too much invested in one asset class, we sell enough to bring it back to your target percentage. And if your investments in another asset class fall below your target, we buy enough to bring it back to your target. This is called “rebalancing.”

Rebalancing helps increase your portfolio return while it also reduces risk. A simple example of this is provided by author and investment manager Richard Ferri in his book **All About Index Funds** (McGraw Hill, 2002). Ferri asks us to consider a portfolio made up of only two funds, each making up half of the portfolio.

Fund AA gains 20% the first year and loses 10% the second year for an average annual total return over 2 years of 8%. (A 20% gain in the first year increases AA to 1.2 times what it was to begin with; likewise a 10% loss between the first and second years translates into a balance at the end of the second year that is only 90% of the balance at the end of the first year.) Using real numbers, it looks like this: the position in AA is worth \$1.00 at the start of Year 1 and is worth \$1.20 at the end of Year 1 (\$1.00 to \$1.20 is a 20% gain). So we start Year 2 with \$1.20, suffer a 10% loss (ouch!) and end Year 2 with \$1.08 (\$1.20 to \$1.08 is a 10% loss). Looking at both years together, Fund AA began at \$1.00 (beginning Year 1) and ended at \$1.08 (ending Year 2). So overall there is an 8% gain.

Our other Fund ZZ loses 10% in Year 1 and gains 20% in Year 2, again for an average return over the two years of 8%, but in this case the math is reversed. Starting from an initial value of \$1, a 10% loss in Year 1 means Fund ZZ ends the year at \$0.90. A 20% gain in Year 2 increases ZZ's value to \$1.08 (1.2x \$0.90).

If the portfolio is held for two years and not rebalanced during this time, the combined return of Funds AA and ZZ is 8%, since each fund grew by 8%.

However, if at the end of the first year the portfolio is rebalanced back to its target allocation of 50% in each fund, the return on the portfolio increases from 8% to 10.25%. At the end of Year 1 the portfolio has a 5% gain. (Fund AA gained 20% and constitutes half



of the portfolio, so the portfolio as a whole is up 10% due to AA; likewise fund ZZ lost 10%, so the portfolio as a whole lost 5% due to ZZ.) After subtracting the 5% loss from the 10% gain, our portfolio as a whole is up 5%.

Some of the gains from AA are sold (at a profit) and invested in ZZ, sufficient to bring the portfolio back

to its 50/50 mix. At the end of Year 2, the portfolio has another 5% gain. (This is the same calculation used above, except that this time it was AA that lost and ZZ that gained.) Over the two-year period, the portfolio has gained 10.25%. (At the end of Year 1 it is worth 1.05 times what it was worth to start with; at the end of year 2 it is worth 1.05 times what it was worth at the end of year 1, or 1.1025; compared to a beginning value of 1, this is a 10.25% gain). Not only has the return of the portfolio increased, but its risk has also been reduced. Because AA was trimmed back to its target 50% level after the first year, there was less in AA to be hit by its subsequent decline in year 2. Rebalancing helps keep the portfolio's risk from rising above its desired level.

Does it matter how often we rebalance the portfolio? Not really. A recent study published by Vanguard's Investment Counseling & Research group showed that annual rebalancing produces results similar to more frequent rebalancings. What matters is that the portfolio is rebalanced—regularly and systematically. ■ ■ ■



MAXIMIZING FINANCIAL AID FOR COLLEGE (continued from page 1)

Gather all your information and get your taxes done as early as possible in January. If necessary, file the FAFSA with good estimates, making sure you don't overestimate income and taxes paid. When your tax returns are complete, file a corrected FAFSA with the final numbers. Loan and grant offers are passed out until they run out; those who file the FAFSA early have a better chance at aid.

The amount colleges expect you to contribute to your child's education (EFC) is based mostly on your income, but they also look at family assets. We'll discuss a few strategies for both.

Strategies for Decreasing Income

- Thinking about taking a sabbatical or starting a business? Depending on your family's income, a \$40,000 income decrease can give you an \$11,000 reduction in your EFC. Remember, though, that lowering your family's income needs to start in the year **prior** to starting college (so the decrease is reflected in your first FAFSA and EFC calculations).
- Avoid capital gains and taking money out of your IRA to pay for college. Both are treated as income, the same as your salary. The same is true if you are cashing in savings bonds. If you must cash out, wait until the spring of your child's junior year when you won't be filing more aid forms (unless of course you have younger children right behind).

Strategies for Reducing "Countable" Assets

- Pay off consumer debt such as credit cards and auto loans.

- Fund Roth IRAs. Contributing for both 2006 and 2007 Roths before completing your FAFSA forms will decrease your assets by \$16,000 (\$20,000 if both parents are at least 50). Roth assets can be withdrawn without penalty to pay college costs. In other words, you put money into a Roth where it won't count toward your EFC (any retirement account is "off the books" for EFC purposes) and then withdraw the money, penalty-free, to pay for college!
- Spend student assets in their name. Use UTMA (Uniform Transfer to Minors Act) accounts to purchase the computer or car they will need in college prior to filing the FAFSA.
- Don't overestimate the value of your home. Many people make the mistake of using the price they think they'll get if they sold the home. Instead, use a recent real estate assessment (or if that's not available, the Federal Housing Index Calculator at <http://www.finaid.org/calculators/federalhousing.phtml>) to get a conservative estimate of the current market value.

Want another way to maximize aid? Have more children go to college at the same time. That's what we did. Little did we know when they were small that having 3 children in college at the same time would be a benefit! And just think of all those lower grocery and water bills once they are living in the dorms! ■ ■ ■

THE ULTIMATE PARENTING MAP TO MONEY SMART KIDS (continued from page 4)

For instance, college students should be similar to their peers in their workload, how much of the financial burden they bear, and how much of the financial burden their parents bear. If they are out of balance with their peers, resentment forms. For instance, if your child works 40 hours per week while attending college and his peers work 15-20 hours per week, it would be very discouraging, and he or she would miss out on

some of the other things that make for a well-rounded college experience.

ACA: That is very intriguing. We'll have to watch for your next book. For those of you interested in Linda's current book, you can visit the website www.brightleitz.com and click on the link "Order Your Copy Here." Input "\$ACA\$" for the Promotional Discount Code, and shipping is free. Or you can find it at www.amazon.com. ■ ■ ■



THE ULTIMATE PARENTING MAP TO MONEY SMART KIDS

Reviewed by Terry Gustafson, CFP®

I've just finished **The Ultimate Parenting Map to Money Smart Kids** written by fellow Cambridge member Linda Leitz. This excellent book discusses in detail how to educate your children about the world of finances. It is filled with useful, real-world examples and ideas, including anecdotes from the author's own trials and tribulations with her brood. Included in the book is an appendix with a handful of sample spreadsheets that readers may find helpful. It is obvious after reading the author's work that she has used and tested her ideas about money on her own children with great success and much introspection. I spent the lunch hour on a recent Sunday discussing the book over the phone with Linda. The following are excerpts from our conversation.



ACA: *Linda, what motivated you to write this book?*

Linda: The combination of being a financial planner and a deliberate, thought-provoking parent.

ACA: *You make multiple references in the book to your children and how they reacted to and learned from your teachings. It makes the reader take a more personal interest in the book and made me wonder how old they are now and how they have done with money matters since you wrote the book.*

Linda: My children are currently 13, 14, and 15 years of age so they are still in the process of learning. All 3 children have different goals and priorities and do not follow the path that you would guess. For example, the 13-year-old expressed a concern about lack of retirement savings the other day, and she is the "creative" one.

ACA: *So many advisors who think "left brained" people are the money-smart people may be oversimplifying things?*

Linda: Yes, too often we assume that people who are more creative will not be successful with money.

For example, my 15-year-old and I were discussing his aspirations to go to chef school, and I brought up the thought that—even though he has a great idea for a career—he will still have to know the business side of the restaurant industry. He immediately agreed and

surmised that maybe it would be best to obtain a business degree first and then go to chef school.

ACA: *I have two main theories regarding children and allowances. Your book addresses the first body of thought that children should have some household responsibilities to "earn" their allowance. The second theory is that they should receive their allowance as part of the family bounty, much like the whole family benefits from purchases of*

food, movies, and furniture, for example, and that they should perform their share of the family chores without remuneration, similar to the way parents do household chores and maintenance, such as washing the car. What are your thoughts regarding the latter theory?

Linda: I believe that there should be a balance between the work vs. entitlement theories of allowance and a concentration on the relative value of their spending and the trade-offs involved.

ACA: *Do you believe that children should also be tasked with putting some money in their college fund starting at a young age, or do you believe that the goal is too far out for them to comprehend?*

Linda: We have had discussions with them about college, but they are not actively saving on their own for college. While conducting research for my second book I had some discussions with a psychologist regarding a middle-ground, balanced approach.

*Continued on page 3,
The Ultimate Parenting Map to Money Smart Kids*