NORTHERN FINANCIAL ADVISORS, INC.
TAX PLANNING AND PREP | FINANCIAL PLANNING | INVESTMENT COUNSELING

Quarterly Capsule

CREATING THE FUTURE TOGETHER

All In The Family- News About Your Northern Team

Gary Murphy, CFP!!

GARY MURPHY rules! No sooner does he announce that he and Stacy will be adding to the Murphy clan than he announces a change in his professional status by sending us a blank email, with just his name. It read: *Gary Murphy, CFP*.

The CFP designation has become more difficult of late to obtain, requiring the passing of all the specific courses, and an arduous comprehensive exam. There is also an experience requirement and Gary has a rich background in banking and investments.

Our policy is that you must have the CFP to advise clients so getting this designation marks a transition point from associate to advisor. Expect to meet with Gary for some up-coming appointments.

Congratulations, Gary!! It's great to see you make the Advisor class.

CHRISTINE ISHAM is just back from the advanced planning conference of the Financial Planning Association with new ideas for her practice. She's particularly excited about using Mind Mapping in the Goal Setting appointments and using the Morningstar's style boxes to improve investment selection. Look to get great value in your upcoming appointments with her and the other staff!

DAVID LENTZ has been accumulating frequent flyer miles lately. Last month he flew to Texas to attend the National Association of Personal Financial Advisor's conference and then on to Washington, DC to visit his daughter. We used that time to book his summer schedule, so look to see him real soon.

LAKHAUN MCKINLEY is nicely settled in Illinois. Asked if there was anything new and exciting that he could share with us about life in Champaign, he said his grade school teacher-wife did not catch any colds this past year. Hmm. Sure this is true, but I'm wondering if LaKhaun is becoming an Ilini season ticket holder and doesn't want you Michigan fans to know!

MICK PORTER in for a career change? I peeked at his calendar and it seems Mickey won a silent auction for a series of cooking lessons. Mickey dismissed rumors that he has plans to launch his own show on the cooking channel. We'll keep an eye on him in the meantime. So, Bon Appetite and have fun, Mick!

Michael Rudy ought to write a book! First there was that whirlwind romance with a Canadian, followed by a long distance courtship, a Christmas holiday wedding and the honeymoon in quaint, old Quebec City. Now, it seems he'll need an act of Congress—literally—to let her into the States anytime soon! They're still planning to do *happy ever after* at their lakefront home in Ypsilanti.

Dali Nenadov is off to Minneapolis. His wife, Cristina, completed her Bachelor's degree in business and will soon start work at Target. Dali will become the newest member of our virtual team. He will continue assisting Christine with appointments and providing great service to our valued clients. Dali plans on being back in the Northern office often, so look to see him in person at appointments. We wish Dali and Cristina a smooth transition to their new home

Karin Anderson is just about done with her CFP work. She's completed all her course work and now only needs to sit for her final exam. She did allow for a little R&R on St. Martin's after the tax season. 3 ½ year old Sean continues to be the great blessing and joy of her life.

Mike Reyes seems to have taken a lively interest in the wildlife and flora of Lake Seymour (that's that large puddle of water just in back of our offices). He reports that we have herons perching in trees, geese setting up house and all sorts of small creatures scampering about. All this makes us an environmentally friendly company, right?

Rosanna Norwood is doing some exciting things…I mean really exciting things. I've only been able to deduce this: no matter what incentives I've put before her, she nonchalantly answers, "I don't have anything that interesting to report." Well, if you knew her like I know her, you'd know there's something up! I'll keep you posted.

Lucille Flint was recently honored by the Michigan Chapter of the Top Ladies of Distinction sorority, for her exceptional optimism. She's stayed on with us again this year and has been brightening up our team with her optimism!

Northern News Bits
Christine and David's New Strategic Assistant

Meet Jennifer Burnett!

We're so happy to welcome Jennifer who joined the team this past March.

She's a Michigan native, born in Grosse Pointe and growing up in Clinton Township. She holds a B.A. in History at Western Michigan University and was a summer intern with the City of St. Clair Shores. After completing her studies, the City hired her as the Assistant to the Director of Parks and Recreation.

She loved the work and working with the people at the City, but alas, the City wasn't able, given their budgetary constraints, to offer her a true "full time" position, though that's what she was really doing. She was saddened to leave so many friends behind.

In the short time she's been here, she's come to enjoy the atmosphere and has been finding that there are nice people here as well.

Christine and David are bringing Jennifer in to support them in implementing the variety of strategic plans they have for Northern.

My early assessment is that Jennifer brings an intelligent, bright and cheerful spirit to the office. She's also enjoyed meeting the many Northern clients we've been bragging about to her.

Her first impressions: People here are very professional, the pace is fast and people are busy (it was the tax season, after all).

What's ahead? A progression chart for the career tracks for staff and replacing our receptionist, Nicole Fox.

What did you say? Replace Nicole? I thought you just announced her arrival?

Read on…

Niki Goes to Arizona

What in the world is going on here? We were very happy when Nicole Fox joined us last Fall. And we had every indication that she really enjoyed being with us. She told me last October how great it was to be with a company that had a hoe-down as a client appreciation event. She even seemed to be surviving the tax season; no small accomplishment!

Well, the simple story is that Niki had left her two children in Arizona with her aunt when she moved here from Florida. When her granddad announced he was heading out to Arizona in March and would pull a trailer for her, she made an executive decision and gave us her notice.

We've all missed her and many of you have asked us to send her your best wishes for her future. Of course we will.

Lucille Stays On

Interestingly enough, at this time last fall, we shared that Lucille who usually works with us only during the tax season, as the master of the tax organizers, had stayed on as a pinch hitter while we conducted our receptionist search. Well, again this year, she's generously agreed to fill in as interim receptionist. She'll manage appointments, confirmations and requests for pyramid updates. She's been here long enough now that I think and believe she's really a full time employee. There's probably some obscure tax rule that's giving someone a loophole by keeping this bright, creative and highly helpful retired woman in the part time status. Whatever it is, all I can say is thanks, Lucille. We appreciate you very much.

Staying on after the tax season? How convenient…let's just do a quick wrap up of the tax season.

A Great Tax Season

We got off to a good start with Niki managing our appointment calendars. And, we had a leg up with Michael working with Lucille, Niki, Mike and Rosanna late last year to develop ways to manage the seemingly infinite details that go into a successful tax season: from setting the advisors' rosters, to coordinating appointment slots to preparing lists for mailing the paper and electronic organizers.

We've know that using organizers—especially e-organizers—yield a variety of benefits. We're learning that they also have a shadow side introducing all sorts of opportunities for errors. This year, Christine experimented with a limited number of clients, wanting to know if she could be equally productive in her tax appointments if she did them without using any organizer. She found that by just having advance copies of the official documents, she was able to get as many returns completed and filed as when she used either type of organizer—completely skirting the organizer errors. Clients really loved not having to sit down and go through the arduous process of filling out the organizer form. We haven't decided as to whether we'll institute the no-organizer approach as our standard but we'll keep you posted.

The tax season is our busiest time of the year. We see virtually all 500+ clients in just two months. For a number of years, where we can, we've built structures to systemize our work. We've also been working to use all our resources to improve our inter-office / colleague communications.

While we find that this goal of maximum efficiency and accuracy is always a moving target, we all have one driving goal: we want each and every one of you to have as solid a tax appointment experience as possible. We want you to feel that we've gone after every legitimate deduction possible. We want to make this as painless as possible for you. We want to get you filed as easily and quickly as possible, getting your refund checks—when they are due you—into your hands as fast as we can.

Like all of our services, our team welcomes your feedback. A number of our clients serve on formal advisory boards for us, but we also welcome your comments and reactions as well. Direct your mail or email to Christine (ChrisI@NFA1040.com).

Client Appreciation Event

So you recently referred someone to us who became a client? Well, thank you so much! Look for your Client Appreciation Party invitation in the mail. Please RSVP for Sunday, June 25th at the *Sangria* restaurant in Royal Oak. We'll have an early evening dinner with flamenco dancers entertaining. We'll have a Salsa dancing lesson after dinner before dancing the night away.

Our practice grows almost exclusively on the basis of your referrals. We welcome this vote of confidence in our fee-only work and hold these referrals as the highest complements you can pay us!!

Our next appreciation event is an outing planned as a family event at Comerica Park on September 15th when Detroit hosts the Orioles! We'll do a picnic and maybe even buy you some peanuts and Cracker Jacks! We hope to see you there. In the meantime, thank you for all you do to help us grow.

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YOUR MONEY

THE MEDICARE DRUG PLAN

BY LAKHAUN MCKINLEY, EA, CFP

Introduction - Millions of Medicare recipients became eligible for the new prescription drug coverage program this year and the confusion began almost immediately. The enrollment period for the first go around ended May 15th. A new enrollment period opens on November 15, 2006. If you missed the original enrollment—the one that just ended—you will pay a higher premium. There is a loophole if you already had a (work related) plan if it is a "creditable plan." This part is complicated enough to just leave it at that for now.

It's Not that Simple - Whether you qualify this creditable plan loophole or simply have no drug plan at all, deciding your next move is not a simple matter. If you are in a plan, and have had steady increases in your premiums year after year with this private plan, switching to a Medicare D plan now might be smart. Without a plan, you'll need to select a plan.

Selecting a Plan – Once you've decided to sign up for Part D, it's important to determine just what the benefits of the various plans are. Your two basic choices are either a *Medicare Prescription Drug Plan* or the drug plan that comes as part of a *Medicare Advantage Plan.*

What's the cost? The average premium for a stand-alone plan will be about $35 a month. The Medicare Advantage premiums will run much higher, but they cover more than just drugs. Beyond the premium, the more relevant issue is what you'll actually pay for your prescriptions. Generally, you'll start out paying a $250 annual deductible. After meeting this deductible, you'll have to cover 25% of the next $2,250 of prescription expenses. Now get this: If your prescriptions cost more than $2,500, you'll have to pay 100% of the cost between $2,250 and $5,100. Anything above $5,100, you'll pay only 5% of the total bill. The bottom line: you will pay $3,600 for prescription expenses up to $5,100.

The last major consideration is whether your plan will cover your specific prescriptions *and* whether your preferred pharmacy will take this coverage.

What to do now? - Gather information. For the internet savvy, log onto www.medicare.gov. The site is user friendly and has a nice "Frequently Asked Questions" section. There are also some interactive tools that could help you narrow down your choices. If you were eligible for Medicare last Fall, you should have received the *Medicare & You* booklet in the mail. You can also call Medicare at 1-800-633-4227.

When all else fails – Still confused? When all else fails or if you prefer, call your trusted NFA advisor. After all, it's part of the open retainer: your advisor will be happy to give you personal guidance and with it, some financial peace of mind.

GOAL SETTING

What's the Importance of Money to You?

BY MICHAEL RUDY, EA, CFP

In Northern Financial Advisors' Goal Setting appointment, we seek to learn what you ultimately want to achieve. Without a solid grip on what you want as a future, your motivation, resolve and commitment to implement your plan could deteriorate or simply disappear.

We generally start this appointment by locating you in our Northern Financial Life Cycle chart. Each phase has its own inherent requirements. People starting out generally need to get a house and pay off debt. Established clients might need to lower risk or generate more cash to live on in retirement.

We then will ask, "In 5 years, if you didn't make any big mistakes and had your share of lucky breaks, what would your life look like?" We *read* your responses looking for the unarticulated outcomes you might want. We often identify the family's natural visionary or leader. We often learn if you've created a balance between work and family.

We finish off the appointment with a visualization exercise and give you homework to "anchor" this vision. And as Napoleon Hill once said: "Whatever the mind could conceive and believe the mind could achieve."

I've taken to using a financial biography in this appointment as a way of uncovering interesting insights as to why some clients start with the best intentions but flounder during the implementation. We've seen that many obstacles had histories located in emotionally charged experiences of childhood.

Couples seem to regularly compliment each other. Spenders find savers, for example, and by degrees, influence the other so that they move toward a balance rather than any lifelong conflict.

My view is that the majority of you have healthy attitudes about money. You generally have a respect for money without being obsessed by it. You are remarkably responsible in managing your money, paying your bills and making solid financial decisions. You were already prudent with your money before coming to us and many decided to add a financial professional to supplement your knowledge or bring support in following through on decisions.

The majority of you have had conversations about money with your partners that were largely "practical" rather than deep or intimate and value the Goal Setting conversations as a way to better know yourself or your partner.

Christine gets to this depth in her appointments by exploring what would be important for you to do or be in the next six months, if you knew they would be your last ones. I like to ask, "What is the importance of money to you?" and then press you to go deeper until we find what you *really* want to have money for . . . what values you are seeking to bring to life.

As clients, you seem to leave these appointments better centered and positioned to create a vision of a future worthy of your efforts. And going deeper seems to support your motivation to make it happen. So let me ask, "What's important about money to you?

VOLATILE MARKETS
What You Need to Know Now

BY
GARY MURPHY, CFP

If you browsed through the financial news in any paper or watched any of the financial news television programs, you already know that the markets have been volatile and stocks are slipping. We've already received a number of calls from clients anxiously wondering if it's now time to get out the markets.

Let's back up just a little before coming directly to this concern. We consistently advocate the "asset allocation" approach to investing. *Asset allocation* means that we deploy our clients' assets into both a variety of *asset classes* and the investments inside these classes. An *asset class* is a broad category of investment: interest earning, real estate, equity and dollar hedges for example.

The principle idea advanced here is the view that *no one can consistently predict the market* on any given day. Certainly there are some theoretical mathematicians exploring how they might better predict major market moves. And while these models may someday come to be perfectly reliable, at this time, we don't look outside, but rather, inside.

With asset allocation, we invest money in several classes and these classes are *functional*—they serve a purpose in your portfolio. Cash, short and long term bonds preserve value during times of deflation. Real estate is our hedge for inflationary cycles. Stocks or equities generally appreciate when the economy is prospering. International investments and "dollar hedges," like precious metals, provide a buffer when there are big currency swings.

Once invested, time unfolds and markets will rise or fall. These changes are reflected in the changes in value of your different investments and by extension, whole asset classes. So, when the market goes down, both our equity and interest earning allocation percentages change. If the stock market rises, we will have "excess" in the equity class. We would move money out of the market and invest it in the interest earning assets. When markets fall as they have been of late, we take money out of the interest earning side and buy equities. By holding to this discipline, we have structured ourselves to buy low and sell high.

The specific investments that populate your portfolio range widely. We often use certificates of deposit and Treasury bills in our clients' portfolios and we use no-load mutual funds. More specifically, we choose passive or actively managed mutual funds depending on whether we think a particular asset class is in an efficient market (e.g. large capitalization stocks) or inefficient markets (e.g. small cap or foreign). Passive funds are generally *index* funds, like an S&P 500 Index Fund and contain the 500 stocks that make up the index. The fund manager merely makes the adjustments necessary to keep the mirror of the index. On the other hand, an Oakmark International Fund would be an example of an actively managed fund. Here, we are choosing fund managers who have shown themselves to build a portfolio of stocks that have been able to grow at a pace faster than its appropriate index—or peers, if you will. These fund managers do, in fact, try to time the market and delete and add stocks in an effort to get results better than the index.

So, on the bottom line, what's your take-away? *Don't make yourself crazy when you pick up the paper and you find your mutual funds have taken a hit.* No one can prevent that; that's part of the risk when you make an investment. Rather than fret, remind yourself that you are in the best possible position to keep from getting wiped out during downturns and get all the growth that comes during times of prosperity.

Of course, pick up the phone and call your advisor if this self-talk doesn't get it for you. *Hand holding* or more respectfully, re-assurance is also part of the open retainer.

LATE BREAKING NEWS

Tax Law Changes, Schwab Alert, I-Bonds and Usernames & Passwords

Tax Changes

President Bush signed a new tax act on May 17th and while it did not extend all previously passed favorable changes that were slated to end, there are some changes that are relevant.

Increase in the AMT Exemption – Clients coming in for early tax planning appointments were often shocked to see that they would pay significant Alternative Minimum taxes this year. This was because the AMT exemption had dropped back to the $35,000 level. The new law takes it back up to $62,550 for married filing joint couples and $42,500 for single filers. It's a one year extension, so we're not fully out of the woods yet.

Lower Capital Gains Rates – remain unchanged for at least 2 more years and qualified dividends will continue to enjoy the favorable capital gains treatment for another 2 years as well.

Kiddie tax - Your kid is now a kid for kiddie tax purposes up to age 18. Unearned income in excess of $1,700 (interest, dividends and the like) will be taxed at the parents' higher rate if taxing it this way results in a higher tax bill.

Section 179 – You'll have 2 more years to expense up to $100,000 of depreciable assets. Good news for capital equipment buyers of big ticket items.

Roth IRAs - If you wait around until after 2009, you won't be limited by $100,000 AGI barrier if you choose to convert IRAs to Roths. Spread the 2010 conversion amounts over 2 years.

Foreign Income Issues – A variety of provisions increase the earned income exclusion, adjust the foreign housing deduction and set requirements for certain tax payment withholding.

Business Provisions – of the bill require changes in the estimated taxes large corporations must now make and clarifies the obscure rules about the domestic production deduction written into law a year or so ago.

Tax Exempt Interest – must now be reported in a way that is the same for taxable interest starting next year

Schwab Alert

We recently received notice that starting July 1st, if you have not opted to receive e-statements, you will pay higher fees when making stock trades. Schwab plans to send out new reminders and if you want to opt in, you'll need to go to www.schwaballiance.com, sign on and complete the process. Our portfolios are generally not top heavy with lots of individual stocks, but check in with your advisor if have any questions or concerns about this issue.

I-Savings Bonds

Your U. S. Savings I-Bonds recently posted an interest rate of 2.41% and some have wondered what to do; if it still makes sense to hold investments like this with such a low rate.

"Hold onto these bonds," Christine recommends. They're inflation-adjusted, so that as inflation changes so too will the rates on these bonds.

Usernames and Passwords

We've been collecting usernames and passwords to access your retirement accounts online. It's a great time-saver in updating your portfolio as well as implementing recommendations after your investment appointment. Would you call Mike Reyes with this information or bring it to your appointment? Thanks.

Wishing you every good that life has to offer

THE NORTHERN FINANCIAL ADVISOR TEAM