Dennis L Hayden

From: Dennis L Hayden [dhayden@haydenci.biz]
Sent: 10/05/2011 2:11 PM
To: dhayden@haydenci.biz
Subject: Newsletter October, 2011

Hayden Consulting, Inc.

Dennis L. Hayden CPA, Editor
Past articles are on our website **http://www.Haydenci.biz** t

Offices:
Carmel, Indiana

Frankfort, Indiana

Newsletter October, 2011 **Volume 2, Number 98**

Contact Us:

http://www.Haydenci.biz

Dennis L. Hayden, CPA CVA MST
dhayden@Haydenci.biz

Hayden Consulting, Inc.

Last Month:

- **Taxes on Online Transactions**
- **"S" Corporation Shareholder Compensation**

Important Links:

Internal Revenue Service

Indiana Department of Revenue

Know someone who would benefit from this Newsletter? Send us an e-mail address.

Why Investment Plans Fall Short

In the shadows of the financial crisis, investors are pursuing goals remarkably different from the past. The unforeseen ramifications of the rising deficit provide challenges difficult to consider. Ultrasensitive markets are responding fiercely to the latest geopolitical, economic and environmental events as new risks emerge each day. In such an environment, the stakes for today's investors are considerably higher. There is a critical awareness to get things right so investors can reach their goals. Yet, many investors are unprepared for what lies ahead. Rather than adapting to a new environment, some are clinging to the past as if nothing has happened. As a result, the best plans may be obsolete and incapable of meeting investors' basic goals.

New, and better, ways to cope are necessary. Outdated investment plans share a number of vulnerabilities. An analysis of prospective clients' financial statements reveals a recurrent set of dormant risks or missed opportunities. Counter-productive in a thriving economy, these shortcomings are downright destructive in an atmosphere challenged to remain afloat. But still, these provide a useful glimpse into some of the common oversights that can undermine a plan in today's fast pasted environment.

Investors frequently underestimate the amount of money they will need for the future. They overlook the fact they will probably live longer than their parents. They also fail to account for the mounting costs of taxes, health care and other lifestyle changes, not to mention the potential for rising inflation. An unrealistic expectation of a return on investment does not help. Normally, future return assumptions use historical trends, although, in the future earnings are likely to offer modest, unpredictable outcomes that will generate less than may be needed for a comfortable retirement. For example, investors expecting fixed income returns similar to those of the past decade may need to adjust lifestyle expectations.

Traditionally what might have been considered a "fully" diversified portfolio may not be as diversified as it appears as it needs to withstand the market gyrations ahead. Asset classes may be missing. Assets may be positioned in a way that sacrifices opportunities. Unknown threats also may be buried within an asset class. Lurking flaws increase portfolio risk and reduce the likelihood of reaching goals. Take, for example, flaws that could become damaging during a period of higher inflation. A portfolio that just contains stocks, bonds and cash would not likely fare well in this environment. Although higher inflation may be a few years away, adding allocations to investments such as commodities, REIT s and Treasury Inflation Protected Securities (TIPS) may enhance overall diversification and provide additional inflation protection.

Consider also the significant, obscure, risk of a concentrated stock position resulting from executive compensation, an inheritance, or business sale. Should market pullback occur, an investor's wealth could significantly decline.

The last minute extension of the Bush-era tax rates only underscores the extreme unpredictability of taxes. In an environment of potentially higher taxes, or ever changing taxes, it is mandatory to structure portfolios with tax efficiency in mind. Although this seems obvious, many plans fail to consider the most tax efficient location for each asset or, even worse, they ignore the impact of taxes in general. As a result, the family member who may benefit most from the investor's wealth could end up feeding Uncle Sam.

Successful wealth planning requires more than just sound investments. It demands a comprehensive strategy that integrates all aspects of wealth: investments, banking, tax planning, and estate planning. So why are planning decisions made in isolation with little concern about the repercussions? This problem is especially detrimental during periods of change. Fallout from new regulations, emerging legislation and global events is apt to be more harmful if it is wrongly assumed to be immaterial by advisors operating within their own specialized vacuum.

Plans that cannot readily adapt are destined for failure. Many wealth accumulation plans remain static, oblivious to the fact that the world has changed dramatically, and will continue to change. Financial policy mood swings are certain to persist in the coming years, and for a plan to succeed, it must remain flexible enough to respond.

Insufficient Understanding, Confidence, and Lack of transparency are industry jargon used as a hindrance to leave investors with a limited understanding of what they own and why they own it. When the financial crisis hit, these investors had trouble comprehending why their plans were failing. Many were surprised to discover their strategies were not addressing a most important need, evidenced by the startling gap between expectation and results. Some investors reacted by abandoning their plans, bailing out at the bottom, and waiting too long to return, which made matters worse. All things considered, it is no surprise investor confidence is modestly better today than when the crisis began. But the situation is neither hopeless nor pointless. With the right plan, success is still possible.

To be continued in November.

THESE ARTICLES MAY NOT BE USED FOR PENALTY PROTECTION

DISCLAMERCIRCULAR 230 DISCLAMER: NONE OF THE ARTICLES IN THIS NEWSLETTER ARE INTENDED OR WRITTEN BY THE VARIOUS AUTHORS OR HAYDEN CONSULTING, INC, TO BE USED, AND THEY CANNOT BE USED, BY YOU (OR ANY OTHER TAXPAYER), FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU (OR ANY OTHER TAXPAYER) UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.