



Harris Financial Services

Robert D. Harris, MBA
President
1115 North Leroy Street
Fenton, MI 48430
810-629-4900
hfs@investharris.com
InvestHarris.com

As summer break nears, perhaps you are wondering how much it might cost to send your kids to college. Why not call me at 810-629-4900 and we can do some projections planning. The time to plan is way before things start happening while time is still on your side. We do not charge a fee for our consultations. Call today.

June 2012 - Harris Financial Services

Market-Moving Indicators for Monitoring Europe

Retirement Rules of Thumb

Four Things to Do in the Four Years Before College

Can I convert my traditional IRA to a Roth IRA in 2012?



Your Money Matters

"Big City Solutions - Small Town Service"



1115 North Leroy Street -- Fenton, Michigan 48430
(810) 629-4900 -- Fax (810) 629-2888
www.Investharris.com -- hfs@investharris.com

Market-Moving Indicators for Monitoring Europe

If you've struggled to make sense of the ongoing European debt debacle, you're not alone. It's difficult even to keep track of all the pieces of this financial Rube Goldberg puzzle, let alone understand how they can influence one another.

Though new aspects of the situation seem to crop up every month, here are some of the most common factors that either reflect or affect sentiment about what's happening in Europe. Knowing about them might help you understand why markets react to a seemingly obscure headline. After all, one of the few things that almost everyone seems to agree on is that the situation isn't likely to be solved overnight.

Take an interest in interest rates

Interest rates on sovereign debt are perhaps the most closely watched indicator. When demand for a country's bonds is low because investors are concerned about the possibility that they might not be repaid in full and on time, that country must offer a higher interest rate in order to borrow money to finance its day-to-day operations.

Interest rates become particularly worrisome when they reach or exceed 7%. That's the level that prompted Greece, Ireland, and Portugal to seek bailouts from their European peers, and it's widely seen as unsustainable. When a country must pay that much simply to service its debt, investors become concerned that high borrowing costs will make a country's financial situation even worse.

Watch credit ratings

Troubled European countries are struggling to deal with a devilish Catch-22. In many cases, unsustainable debt burdens have led to stringent austerity measures; however, such measures also can hamper economic growth, which reduces tax revenue and can potentially increase deficits. Higher deficits can lead to a lower credit rating that in turn can mean higher borrowing costs, bringing on the problems discussed above and potentially launching a new downward economic cycle. Thus, a downgrade to a country's credit rating tends to raise concerns.

However, investor reaction also can be unpredictable. For example, Standard & Poor's January downgrade of nine sovereign nations and the European Financial Stability Fund was largely met with a shrug by investors. There's been so much pessimism about Europe for so long that in some cases, markets may already have priced in much of the bad news.

Monitor credit default swap costs

A credit default swap (CDS) is a form of insurance against the possibility that a bond issuer might default or fail to make a payment on its obligations. Bondholders buy a CDS from a financial institution or insurance company that promises to reimburse the bondholder for any losses sustained in the event of a default. The cost of that insurance is seen as a proxy for the perceived risk involved in investing in a particular country's bonds. The higher the cost of a CDS on, say, Italian sovereign debt, the greater the anxiety about whether the bond issuer will default and the CDS issuer will have to pay.

Follow the money

To prevent credit markets from seizing up, the European Central Bank late last year provided almost €500 billion in three-year loans to European banks, making it easier for them to refinance their debt. The level of borrowing at the ECB is seen as one indicator of how banks are being affected by their holdings of sovereign debt. The greater the need to borrow from the ECB, the greater the banks' perceived level of vulnerability.

Bailouts: Nein nein nein?

U.S. voters aren't the only ones who are sensitive about bailouts; so are Germans. As Europe's most powerful economy and the one with the best credit rating, Germany is the tentpole upon which European financial stability hangs. However, by the end of 2011, the German economy had begun to slow. Any indications that economic pressure could threaten Germany's ability and willingness to remain strong in its support of the eurozone can spook anxious investors.

Retirement Rules of Thumb



Rules of thumb are usually based on a sound financial principle, and can provide a good starting point for assessing your retirement needs.

Because retirement rules of thumb are guidelines designed for the average situation, they'll tend to be "wrong" for a particular retiree as often as they're "right." However, rules of thumb are usually based on a sound financial principle, and can provide a good starting point for assessing your retirement needs. Here are four common retirement rules of thumb.

The percentage of stock in a portfolio should equal 100 minus your age

Financial professionals often advise that if you're saving for retirement, the younger you are, the more money you should put in stocks. Though past performance is no guarantee of future results, over the long term, stocks have historically provided higher returns and capital appreciation than other commonly held securities. As you age, you have less time to recover from downturns in the stock market. Therefore, many professionals suggest that as you approach and enter retirement, you should begin converting more of your volatile growth-oriented investments to fixed-income securities such as bonds.

A simple rule of thumb is to subtract your age from 100. The difference represents the percentage of stocks you should keep in your portfolio. For example, if you followed this rule at age 40, 60% (100 minus 40) of your portfolio would consist of stock. However, this estimate is not a substitute for a comprehensive investment plan, and many experts suggest modifying the result after considering other factors, such as your risk tolerance, financial goals, the fact that bond yields are at historic lows, and the fact that individuals are now living longer and may have fewer safety nets to rely on than in the past.

A "safe" withdrawal rate is 4%

Your retirement income plan depends not only upon your asset allocation and investment choices, but also on how quickly you draw down your personal savings. Basically, you want to withdraw at least enough to provide the current income you need, but not so much that you run out too quickly, leaving nothing for later retirement years. The percentage you withdraw annually from your savings and investments is called your withdrawal rate. The maximum percentage that you can withdraw each year and still reasonably expect not to deplete your savings is referred to as your "sustainable withdrawal rate."

A common rule of thumb is that withdrawal of a dollar amount each year equal to 4% of your savings at retirement (adjusted for inflation) will be a sustainable withdrawal rate. However, this

rule of thumb has critics, and there are other strategies and models that are used to calculate sustainable withdrawal rates. For example, some experts suggest withdrawing a lesser or higher fixed percentage each year; some promote a rate based on your investment performance each year; and some recommend a withdrawal rate based on age. Factors to consider include the value of your savings, the amount of income you anticipate needing, your life expectancy, the rate of return you anticipate from your investments, inflation, taxes, and whether you're planning for one or two retired lives.

You need 70% of your preretirement income during retirement

You've probably heard this many times before, and the number may have been 60%, 80%, 90%, or even 100%, depending on who you're talking to. But using a rule of thumb like this one, while easy, really isn't very helpful because it doesn't take into consideration your unique circumstances, expectations, and goals.

Instead of basing an estimate of your annual income needs on a percentage of your current income, focus instead on your actual expenses today and think about whether they'll stay the same, increase, decrease, or even disappear by the time you retire. While some expenses may disappear, like a mortgage or costs for transportation to and from work, new expenses may arise, like yard care services, snow removal, or home maintenance--things that you might currently take care of yourself but may not want to (or be able to) do in the future. Additionally, if travel or hobby activities are going to be part of your retirement, be sure to factor these costs into your retirement expenses. This approach can help you determine a more realistic forecast of how much income you'll need during retirement.

Save 10% of your pay for retirement

While this seems like a perfectly reasonable rule of thumb, again, it's not for everyone. For example, if you've started saving for retirement in your later years, 10% may not provide you with a large enough nest egg for a comfortable retirement, simply because you have fewer years to save.

However, a related rule of thumb, that you should direct your savings first into a 401(k) plan or other plan that provides employer matching contributions, is almost universally true. Employer matching contributions are essentially "free money," even though you'll pay taxes when you ultimately withdraw them from the plan.



Four Things to Do in the Four Years Before College



Spiraling student debt

According to the New York Federal Reserve Bank, total outstanding student loan debt (from both federal and private sources) surpassed total outstanding credit card debt last year, and is on pace to surpass a trillion dollars this year. Unlike credit card debt, student loan debt generally cannot be discharged in bankruptcy.

For your child, high school means football games, a driver's license, SATs, and the prom. For you, it means college is right around the corner. Before your child starts touring college campuses, here are four things you can do to get ready.

1. Take stock of your savings

A few years before you need to start paying tuition bills is a good time to take stock of your college savings. How much have you saved? Are you making monthly contributions, and is there any room to increase them? Now is the time to make sure your investments aren't weighed too heavily towards equities, because any losses suffered at this point could be difficult to make up. Consider shifting your investments to less risky ones as college approaches. In addition, estimate how much savings you'll have--factoring in your current balance, monthly contributions, and estimated rate of return--when your child graduates from high school. Finally, you might ask grandparents if they plan to help with costs.

2. Get familiar with financial aid

For your child to be eligible for federal student loans, grants, and/or work-study, you must complete the federal government's aid application, the FAFSA. The FAFSA looks at your family's income, assets, and other information (e.g., the number of college-age children in the family, the age of the older parent when the child starts college) to arrive at a figure called the expected family contribution (EFC). This is the amount the government deems you can afford to pay each year. This figure stays the same no matter what college your child applies to. The difference between the cost of attendance at a certain college (a variable) and your EFC (a constant) equals your child's financial need.

To get an estimate of your EFC ahead of time, try filling out the government's FAFSA4caster tool at www.fafsa.ed.gov. Though you'll still have to fill out the real FAFSA later, the FAFSA4caster will give you a ballpark EFC figure and an idea of what family financial data is required in the financial aid process. Plus, the FAFSA4caster will automatically import your data into the FAFSA later on.

The two main federal education loans are the student Stafford Loan and the parent PLUS Loan. There are two types of Stafford Loans: subsidized, for which the government pays (subsidizes) the interest while your child is in school and six months after school (the grace period), and unsubsidized, for which the government does not pay the interest during

these periods. The maximum borrowing limits for Stafford Loans are currently: 1st year, \$5,500 (\$3,500 subsidized); 2nd year, \$6,500 (\$4,500 subsidized); 3rd-5th years, \$7,500 (\$5,500). The current interest rate is 6.8% fixed for unsubsidized loans and 3.4% fixed for subsidized loans disbursed between July 1, 2011, and July 1, 2012 (this rate is scheduled to increase to 6.8% after July 1, 2012).

A PLUS Loan is available to parents with good credit histories; parents can borrow up to the full cost of their child's education. Currently, the PLUS Loan has a fixed interest rate of 7.9%. The unsubsidized Stafford and PLUS Loans are available without regard to financial need.

In addition to loans, your child should spend time in high school researching scholarships. There are several free scholarship websites that let your child tailor his or her search by interests and abilities. Obviously, scholarships are the preferred method of college funding because they don't need to be repaid.

3. Talk to your child about college costs

At some point during junior or senior year, it's important to have a frank conversation with your child about college costs. Tell your child how much you expect to have saved, and how much you will be able to contribute each year during college. If costs exceed what you can pay, explain that the rest will need to be borrowed by either you or your child, or covered by a scholarship, grant, or work-study job.

When talking about loans, show your child exactly how much a certain amount will cost to repay each month over a 10-year period. For example, a \$27,000 loan (the current max in federal Stafford Loans that can be borrowed over four years) at 6.8% interest will cost \$311 each month. The idea is to take an abstract loan amount and break it down into a figure--and monthly obligation--your child can understand. Ultimately, as the parent, it's up to you to make sure your child does not go into too much debt to pay for college.

4. Research colleges wisely

In addition to thinking about the qualities of his or her ideal college (e.g., geographic region, setting, size), your child should develop a list of colleges that are a good match for his or her academic abilities, interests, and talents. To maximize the chances of receiving a favorable aid package, consider your child's academic profile--by looking at GPA, class rank, and SAT/ACT scores--and encourage your child to apply to at least a few colleges where his or her academic credentials are better than those of the average admitted student.



Harris Financial Services

Robert D. Harris, MBA
President
1115 North Leroy Street
Fenton, MI 48430
810-629-4900
hfs@investharris.com
InvestHarris.com

**Harris Financial Services --
Robert D. Harris, MBA
1115 North Leroy Street --
Fenton, MI 48430
(810) 629-4900**

Registered Representative,
Securities offered through
Cambridge Investment Research,
Inc., a Broker/Dealer, Member
FINRA/SIPC. Investment Advisor
Representative, Cambridge
Investment Research Advisors,
Inc., a Registered Investment
Advisor. Harris Financial Services
& Cambridge are not affiliated.



Can I convert my traditional IRA to a Roth IRA in 2012?

It may be an excellent time to consider converting your traditional IRA to a Roth IRA. As a result of market volatility, some investors have seen a

reduction in the value of their traditional IRAs, meaning that the tax cost of converting may have dropped significantly. Also, federal income tax rates are scheduled to increase in 2013, so converting this year may be "cheaper" than converting next year.

Anyone can convert a traditional IRA to a Roth IRA in 2012. There are no longer any income limits, or restrictions based on your tax filing status. You generally have to include the amount you convert in your gross income for the year of conversion, but any nondeductible contributions you've made to your traditional IRA won't be taxed when you convert. (You can also convert SEP IRAs, and SIMPLE IRAs that are at least two years old, to Roth IRAs.)

Converting is easy. You simply notify your existing IRA provider that you want to convert all or part of your traditional IRA to a Roth IRA, and they'll provide you with the necessary paperwork to complete. You can also transfer or roll your traditional IRA assets over to a new

IRA provider, and complete the conversion there.

If a conversion ends up not making sense (for example, the value of your Roth IRA declines after the conversion), you'll have until October 15, 2013, to "recharacterize" (i.e., undo) the conversion. You'll be treated for federal income tax purposes as if the conversion never occurred, and you'll avoid paying taxes on the value of IRA assets that no longer exist.

The conversion rules can also be used to allow you to contribute to a Roth IRA in 2012 if you wouldn't otherwise be able to make a regular annual contribution because of the income limits. (In 2012, you can't contribute to a Roth IRA if you earn \$183,000 or more and are married filing jointly, or if you're single and earn \$125,000 or more.) You can simply make a nondeductible contribution to a traditional IRA, and then convert that traditional IRA to a Roth IRA. (Keep in mind, however, that you'll need to aggregate the value of all your traditional IRAs when you calculate the tax on the conversion.) You can contribute up to \$5,000 to an IRA in 2012, \$6,000 if you're 50 or older.



Can I undo my Roth IRA conversion?

When you convert a traditional IRA to a Roth IRA, you include the value of your traditional IRA, reduced by any nondeductible contributions

you've made, in income for federal tax purposes in the year of the conversion. But what happens if the value of your Roth IRA subsequently declines, making the conversion a bad deal from a tax perspective? No problem. The IRS lets you recharacterize (undo) a conversion, if you act in a timely fashion.

For example, assume you convert a fully taxable traditional IRA worth \$50,000 to a Roth IRA in 2012. You include \$50,000 in income on your 2012 federal income tax return. But shortly after the conversion, the value of your Roth IRA declines to \$25,000. Now you're suddenly faced with the proposition of paying taxes on \$50,000, while your Roth IRA is worth only \$25,000.

All is not lost--because of the recharacterization rules, you have until your tax return due date (including extensions) to undo all or part of a conversion if it no longer makes good financial sense. So in this example, you have until October 15, 2013, to recharacterize. (Similarly,

if your conversion occurred in 2011, you have until October 15, 2012, to undo the conversion.)

When you recharacterize, you need to withdraw the amount you originally converted, plus any earnings, out of the Roth IRA and transfer it back to a traditional IRA. To simplify the calculation of earnings if you decide to recharacterize, you should consider using a new Roth IRA for each conversion. You might also consider using a different Roth IRA for each separate investment, or class of investments, you plan to make--this way, if one investment goes down but another goes up, you can recharacterize only the Roth IRA that declined in value (you don't need to aggregate your Roth IRAs for this purpose). If you wish, you can always combine Roth IRAs later after the recharacterization deadline passes.

If you convert a traditional IRA to a Roth IRA in 2012 and then recharacterize, you'll have to wait until January 1, 2013, to reconvert those same dollars (and any earnings) to a Roth (or, if later, the 31st day following the recharacterization). However, any other traditional IRA dollars you have can be converted to a Roth IRA without restriction.

