



Harris Financial Services

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School is back in session! Before you know it, they will be off to college. Would it be helpful if we could provide projected future cost estimates for various colleges to help in your planning and budgeting? Would the hunt for the right college be easier if we could provide probabilities for acceptance and insight into average financial assistance at various schools based on your specific high school student's and family's financial situation? Call us at 810-629-4900 to set up a mutually convenient time for us to huddle and work on college selection and funding strategies. The final school bell is coming sooner than we think!

October 2013

Plan Now for a Year-End Investment Review

Show Them the Love: Low-Cost, High-Value Employee Benefits

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Will interest rates rise this year?



Your Money Matters

"Big City Solutions - Small Town Service"



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Plan Now for a Year-End Investment Review

You might not enjoy sitting down to do year-end investment planning, but at least this fall you can make plans with greater certainty. For the last three years, investment planning has meant trying to anticipate possible changes in tax law; for tax year 2013 and beyond, you know for sure how income, capital gains, and qualifying dividends will be taxed. That gives you an opportunity to fine-tune your long-term planning, or to develop a plan if you've postponed doing so. Here are some factors to keep in mind as the year winds down.

Consider harvesting your losses

With tax rates settled, the question of whether to sell losing positions to generate capital losses that can potentially be used to offset capital gains or \$3,000 of your ordinary income becomes a much more straightforward decision. That process is known as harvesting tax losses, and it could prove especially worth considering this year. The first half of the year produced strong gains for U.S. equities; even a mediocre second half could still have the potential to leave you with a higher tax bill than you had anticipated.

To maximize your losses for tax purposes, you would sell shares that have lost the most, which would enable you to offset more gains. Unless you specify which shares of stock are to be sold, your broker will typically treat them as sold based on the FIFO (first in, first out) method, meaning that the first shares bought are considered to be the first shares sold. However, you can designate specific shares as the ones sold or direct your broker to use a different method, such as LIFO (last in, first out) or highest in, first out.

Interest rates: bane or blessing?

The Federal Reserve has said that if the economy continues to recover at its expected pace, it could raise its target Fed funds rate sometime in 2014. However, investors have been anticipating such an increase since early summer, when many bond mutual funds began seeing strong outflows from investors concerned that a rate increase could hurt the value of their holdings. As any consumer knows, lower demand for a product often

means lower prices. And since bond prices move in the opposite direction from bond yields, yields on a variety of fixed-income investments have begun to rise. However, there also could be a silver lining for some investors. Higher yields could provide welcome relief for individuals who rely on their investments for income and have suffered from rock-bottom yields.

The Fed has said any rate decisions will depend on future economic data. However, now might be a good time to assess the value of any fixed-income investments you hold, and make sure you understand how your portfolio might respond to a future that could include higher interest rates. Many investors' asset allocation strategies were likely developed when conditions generally favored bonds, as they have for much of the last 20 years. Though asset allocation alone can't guarantee a profit or prevent the possibility of loss, make sure your asset allocation is still appropriate for your circumstances as well as the current investing climate. And don't forget that other financial assets can be affected by potential future interest rate changes as well.

Calculating cost basis for fixed-income investments

The IRS had originally planned to require brokers to begin reporting the cost basis for any sales of bonds and options this year, as it already does for stocks and mutual funds. It has now postponed implementation of the requirements for bonds until January 1, 2014 to give financial institutions more time to test their reporting systems. However, don't throw away your old records yet, especially if you're considering selling any of your bond holdings. The cost basis reporting requirements will apply only to bond purchases and options granted or acquired on or after January 1, 2014, so you'll still be responsible for calculating your cost basis for any bonds or options acquired before that date.



The best benefits are those that meet the needs of your employees. Before making any assumptions, survey your employees to see what benefits they value the most.

Show Them the Love: Low-Cost, High-Value Employee Benefits

As a small business owner, you are probably aware of the importance of offering a basic employee benefit package that includes health and disability insurance, and a retirement savings plan. However, recruiting and retaining top talent often requires going above and beyond the basics. By offering creative, low-cost benefit programs, you can differentiate your business from other potential employers.

Flexible work environments

In today's hectic world, time is nearly as valuable as money. Consider the following statistics from the Families and Work Institute (Source: National Study of the Changing Workforce, 2008):

- 59% of employees don't feel they have enough time for themselves
- 61% believe they don't have enough time for their spouses/partners
- 75% (more than 7 out of 10) feel they don't have enough time for their children

For these reasons, one of the most popular and appreciated employee benefits available today is a flexible work environment. Once the hallmark of only small and "hip" technology companies, flexible work arrangements are now offered by larger, more established organizations. Some examples of flexible work programs include:

- Flex schedules: work hours that are outside the norms, such as 7 a.m. to 4 p.m. instead of 8 a.m. to 5 p.m.
- Condensed work weeks: for example, working four 10-hour days instead of five 8-hour days
- Telecommuting: working from home or another remote location
- Job-sharing: allowing two or more employees to "share" the same job, essentially doing the work of one full-time employee. For example, Jan works Monday through Wednesday noon, while Sam works Wednesday afternoon through Friday.

Allowing your employees to tailor their work schedules based on their individual needs demonstrates a great deal of respect and can generate an enormous amount of loyalty in return. Even if your business requires employees to be on-site during standard operating hours, having a process in place that supports occasional paid time off to attend to outside obligations such as doctors' appointments or family commitments and even unexpected emergencies can have enormously positive effects, too. In some cases, these benefits have no costs associated with them,

while in others, the costs may be minimal (e.g., the price of a smartphone or laptop to help employees remain productive on the go).

Free food

Another popular perk at smaller companies is a well-stocked kitchen. Soft drinks, snacks, and inexpensive meal items such as cereal and bagels can go a long way toward fostering good will (and keeping energy up!). Providing healthy options, such as fruit, nuts, and smoothies, is a subtle way to show employees that you value their well-being.

Social activities

Sponsoring periodic activities can help workers relax and get to know one another. Such events don't need to take much time out of the day, but can do wonders for building morale. Bring in lunch or schedule an office team trivia competition or group outing. Perhaps your employees would like to share their little-known skills through an art exhibition or talent show. If you work in a particular industry in which colleagues share a common passion, consider organizing events around that interest. For example, a sporting goods retailer could close up early on a slow-business afternoon and go for a hike or bike ride.

Concierge services, discounts

You may also be able to negotiate with other local companies for employee discounts and services. Laundry services, dry cleaning pickup/drop-off, and meal providers that can deliver hot, family-sized take-home dinners may help employees save both time and worry--and stay focused on the job.

Financial planning/education

For many people, money worries can be distracting and time consuming. Consider inviting a local financial professional into your office to provide counseling sessions for your employees. While you don't necessarily have to pay for any services provided, simply offering the opportunity to get such help during work hours will be appreciated by your workforce.

Survey your employees

The best benefits are those that meet the needs of your employees. Before making any assumptions, survey your employees to see what benefits they value the most. Then, respond to the most commonly identified concerns and desires with creative solutions. That can encourage employees to respond in kind through hard work and dedication.





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Will interest rates rise this year?

The Fed hasn't yet raised its target interest rate from less than 0.25%, and it has promised not to do so before unemployment reaches

roughly 6.5%, which it doesn't expect to happen until next year. However, some interest rates have already begun to go up. For example, according to Freddie Mac, the average interest rate on a 30-year fixed-rate mortgage shot above 4% last June for the first time since late 2011, hitting its highest level in almost 2 years. In the same month, the yield on the 10-year Treasury bond went above 2.5% for the first time since August 2011.

Why are interest rates rising even though the Fed's target rate hasn't? Because bond investors are concerned that higher interest rates in the future will hurt the value of bonds that pay today's lower rates. Immediately after the Fed's June announcement, investors began pulling money out of bond mutual funds in droves, reversing a multiyear trend. If there's less demand for bonds, yields have to rise to attract investors.

Aside from bonds, why are investors concerned about a possible Fed rate hike? Bonds aren't

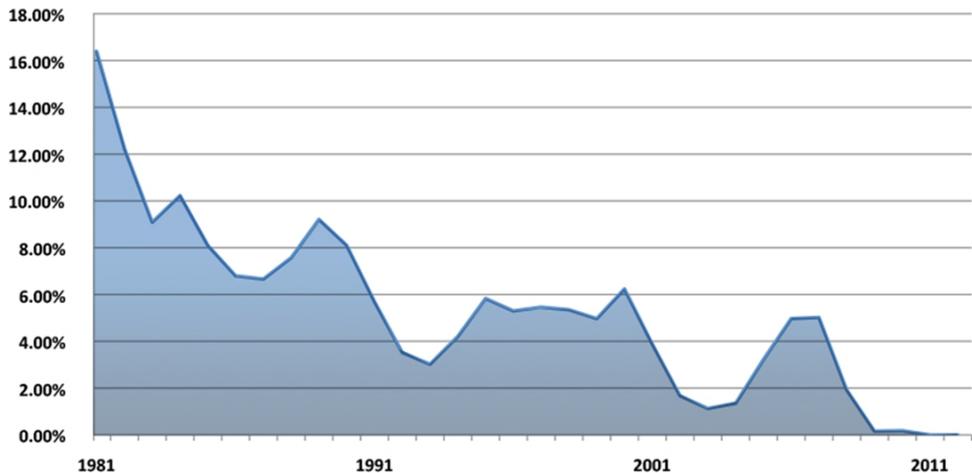
the only financial asset that can be affected by potential future interest rate changes. Dividend-paying stocks with hefty yields have benefitted in recent years; more competitive bond yields could start to reverse that dynamic. Shares of preferred stock typically behave much like those of bonds, since their dividend payments also are fixed; their values could be affected as well.

Also, higher mortgage rates could potentially slow the housing market recovery, though historically they remain at relatively low levels. And if a Fed rate increase were to bring on higher interest rates abroad, that could create even more problems in countries already struggling with sovereign debt--problems that have provoked global market volatility in the past.

The Fed has said any hikes in its target rate will occur only if the economy seems strong enough. If higher rates seem likely to halt the recovery, the Fed could postpone a rate hike even longer. It also will take other measures before raising rates. Even though the timing and size of any Fed action is uncertain, it's best to be aware of its potential impact.

Graph: Interest Rates 1981-2012

This graph represents the federal funds effective interest rate (the average rate at which banks lend to one another overnight), which has generally declined to historic lows over the 30-year period represented. Investment returns, as well as interest rates on bank loans and other fixed-income instruments, could potentially be affected when this rate rises.



Source: Board of Governors of the Federal Reserve System (www.federalreserve.gov), July 17, 2013

