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Summer 2009

Summer News

As you can tell from the weather as of late - summer is here! Time for us to update you on a few things going on here at Keystone Financial Partners.

Durham Bulls Event

We had a great time at the Durham Bulls baseball game on May 16th. We were pleased that the Bulls won the game - we were beginning to think we were bad luck! Be on the lookout for the photos Jim took at the event on our website in the near future. Thanks to all of you who were able to join us!

Welcome to Kari Hutchens

We would like to take this opportunity to introduce you to our newest staff member, Kari Hutchens. Kari joins us in the role of Administrative Assistant Intern. Kari's duties include taking telephone calls, setting up and confirming appointments, preparing for client reviews, assisting clients with address changes, and a number of additional duties. Besides actively handling most of the administrative duties, she also provides exceptional customer service.

Kari is a full time student at North Carolina State University majoring in Accounting. She will be with us full time during the summer, then will go to a part time schedule during the fall and spring semesters. You can go to our website to read her biography. Look for the link under 'Points of Interest' on our home page.

Feel free to email her at khutchens@keystonefinancialpartners.com with any questions or just to say hello!

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Paperless Options

More and more, clients are asking us - *what options do I have to reduce the amount of paper I receive on my investments?* Each company has different rules as to what can be changed to electronic (email or secure website) delivery. In order to keep you updated on your options, we recently created a new section of our website called 'Paperless Options'. To learn more, go to our home page. Click on the link 'Going Paperless' under 'Points of Interest'.

Please note, each company has their own set up. You may not be able to reduce everything you would like to. Also, be aware that you must have a valid email address to elect these options.

Of course, this is only an option. If you are happy with the way you receive your account statements, no action is needed.

If you have any questions about going paperless or want to see if there are additional options available, please contact Karen Brock at kbrock@keystonefinancialpartners.com.

Final Note

If you have questions about your accounts, please do not hesitate to call or email us for help. We hope you are having a wonderful summer!

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Refinancing Your Mortgage: Is It Worthwhile?

The Home Affordable Refinance program allows the refinancing of certain Fannie Mae or Freddie Mac mortgages so long as the new mortgage doesn't exceed 105% of your home's current market value. Additionally, if your existing mortgage payment doesn't include private mortgage insurance (PMI), you won't be required to buy it when refinancing.



Other considerations:

- The interest you pay on a no-cash-out mortgage refinancing is tax deductible only to the extent as was the interest on your original mortgage.
- Refinancing may allow you to switch to a different type of mortgage (e.g., from an ARM to a fixed-rate mortgage) and/or a shorter mortgage term.

Mortgage rates on 15- and 30-year fixed mortgages are at all-time lows. So, is now a good time to refinance your existing mortgage? That depends on several factors.

The first, of course, will be your loan-to-value ratio. In no-cash-out refinancing (where the amount of your new loan doesn't exceed the balance of your existing loan, plus points and closing costs, if applicable), you may be able to borrow as much as 95% of your home's value. However, if the value of your home has fallen below the amount of your existing mortgage balance, you may be unable to refinance at all, except through the American Recovery and Reinvestment Act of 2009's Home Affordable Refinance program (see sidebar). But let's assume your loan-to-value ratio is still "above water"—that is, the value of your home is still greater than your mortgage balance.

If you refinance your mortgage to a lower interest rate, you may save a substantial amount on your monthly mortgage payment—which will give you more money to put toward your savings goals or reducing your other expenses. This is one of the main reasons people consider refinancing their mortgages. But what other factors do you need to consider?

How much will it cost?

The cost of refinancing can include both points you pay and other expenses (called "closing costs") related to refinancing.

One point equals 1% of the amount to be financed. So, if the refinancing costs will include an up-front charge of 0.5 points and you're refinancing \$200,000, you will incur a charge of \$1,000 (special tax treatment applies to points).

Closing costs typically include an application fee, attorney's fee, appraisal fee, credit report fee, loan origination fee (which can be 1% or more of the amount you refinance), title search fee, and title insurance. These costs can vary from state to state. Get a "good faith estimate" from each potential lender and compare both closing costs and interest rates.

Be careful about lenders that advertise "no points, no closing costs" refinancing deals. Often these plans simply roll the closing costs into the amount to be refinanced, or come at a higher interest rate.

How long will it take to recoup the costs?

To determine your break-even point (the point at which you'll begin to save money after

paying fees and closing costs), divide the amount of your monthly mortgage payment savings due to refinancing into the cost of refinancing; the result is your break-even point, expressed in months.

Example: *If you're saving \$100 per month on your refinanced monthly mortgage payment, and your refinancing costs totaled \$3,700, your break-even point is in 37 months.*

It makes sense to refinance if you're certain that you'll be able to recoup your refinancing costs while you're still living in your home. Ideally, you should recover your costs in one year or less.

A matter of term

In many cases, refinancing may mean taking out a mortgage with a new term equal to the *original* term of your refinanced mortgage, not equal to the *remainder* of the term on that mortgage. Depending on when you refinance, this can make a significant difference in the amount of interest you'll pay overall.

Example: *You have a \$200,000 30-year fixed mortgage at 6%, with a monthly payment of \$1,199. After 6 years, you have paid \$69,131 in interest on that mortgage. At that point, you refinance your remaining principal balance of \$182,796 for a new 30-year fixed mortgage at 5% with a monthly payment of \$981. Over the life of that new mortgage, you will pay \$170,468 in interest. So, your total interest payment will be \$239,599 (\$69,131 + \$170,468). If you had stayed with your old mortgage at 6%, you would have paid a total of \$231,676 in interest. Instead, by refinancing when you did, you'll pay an extra \$7,923 (\$239,599 - \$231,676) in total mortgage interest.*

Because of this, you may want to consider applying the monthly mortgage payment savings after refinancing toward additional principal payments. By doing so, you can reduce both the term of your mortgage and the total interest you'll pay.

Crunch the numbers first

In many cases, refinancing looks attractive in the short term because your monthly mortgage payment will be lower—and that can be important to your monthly budget. But will it really save you money to refinance, both in the short run and in the long run? That depends on many factors. Look at them all before you make your decision.

Retiring Early? Don't Forget about Health Insurance

Thinking about retiring early? As part of the decision, you've got to calculate whether you'll have enough retirement income to meet your needs. While adding up the costs of customary living expenses, utilities, and an occasional vacation, don't forget to include another important retirement expense: health insurance.

We're living longer and health-care costs are surging. Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance. And, unless you're lucky, you probably can't rely on your former employer for coverage, since few companies offer retiree health-care benefits. Underestimating the impact of medical costs could significantly hamper your plans for a comfortable retirement.

What are some of your options?

Check out your working spouse's insurance to see if you can be added to his or her policy. But adding you as an insured likely will increase the premium cost to your spouse.

Ask your employer if it's possible to remain covered under its group plan. Usually, plans don't extend coverage beyond active employees and their dependents. But, it's sometimes possible to remain covered, though you'll probably have to reimburse your employer for the cost to keep you on the plan.

COBRA may be another option allowing you to remain covered under your employer's group health plan. If your retirement causes you to lose your health insurance, you can remain on your employer's plan for a maximum of 18 months (with some exceptions). You'll have to pay the entire premium amount, plus a possible 2% administrative fee. And keep in mind that employers with fewer than 20 employees don't have to offer COBRA, so it might not be available.

Shop for individual coverage

If you're going to buy an individual health insurance policy, you may find the premium cost to be quite steep, especially if you're also insuring your spouse and dependents. And there's no guarantee you'll even receive coverage. In most states, insurance companies can examine your health history

and medical records (called underwriting) in order to determine whether you qualify for insurance and at what cost. However, a few states do not allow underwriting for health insurance plans.

Saving a few premium pennies

Here are a few suggestions that might help you lower the cost of individual health insurance. Group rates are usually less expensive, so look for health insurance plans offered by trade associations or churches. Be aware that while coverage might cost less, you may have to pay a membership or association fee to the group offering the coverage. Also, the plan may have high deductibles and co-payments, and the benefits and options, including your choice of physicians and medical facilities, may be limited.

To lower premium costs, consider increasing your deductibles. By shouldering the cost of any treatment you might need, you'll decrease your premium expense.

Also, in states that allow underwriting, the cost of an individual policy of health insurance is based, in part, on your age and health. A preexisting medical condition could affect your premium or even cause you to be denied coverage. So before applying for new health insurance, consider getting in better shape, especially if you think you're a little overweight. Smoking is also a ticket to a higher premium, so quit if you can. Since the insurance company will examine your medical records, review them first with your doctor to remove any inaccuracies, and to clarify the reasons for examinations or treatments.

Finally, if you're denied coverage because of poor health, don't despair; you may still be able to get insurance if your state sponsors a high risk pool. If your state does, you can't be denied coverage, so long as you can show you aren't able to get insurance elsewhere. Be aware, however, that coverage might not be as comprehensive as other options, you may have a six-month or longer waiting period, and not all states offer this type of health insurance.

Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance.



Retiree health benefits

In 2008, only 31% of large employers (200 or more employees) offered retiree health benefits, while a mere 4% of small employers (3 to 199 employees) offered retiree health benefits.

Source: Employer Health Benefits 2008 Annual Survey. Kaiser Family Foundation.





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Ask the Experts



How can I diversify in a difficult market?

For a while, it seemed as though there was no refuge from the stock market's problems. International stocks, real estate, commodities, bonds, and precious metals all got hit simultaneously. The phrase "diversification can't guarantee a profit or ensure against the possibility of a loss in a declining market" never seemed more true.

And yet heightened uncertainty underscores the importance of hedging your bets. The more uncertainty, the more important it becomes to be able to take advantage of whatever investments are working best. Even if all asset classes are struggling, some may struggle less than others. Also, some investments and strategies can be used specifically to offset potential problems with other investments. Owning a variety of investments can improve your ability to navigate rapidly changing conditions. Here are some balancing acts to consider when analyzing whether your portfolio might benefit from additional diversification.

- **Deflation vs. inflation:** Many economists--including those at the Federal Reserve Board--are concerned about the potential impact of prolonged drops in stock or housing values. However, efforts to combat deflation also raise the specter of potential inflation. Your portfolio should take both possibilities into account.
- **Currency fluctuations vs. stability:** Risk aversion last year boosted the U.S. dollar. However, that trend could reverse at some point if investors tire of Treasuries' low returns or become more concerned about rising U.S. deficits. Balance that possibility against potential instability in overseas currencies and markets.
- **Income vs. growth:** A company's ability to provide stable dividends may assume greater importance. Balance the benefits of ongoing income against the fact that smaller, growth-oriented companies have led the market out of every recession since 1971.

What are some alternatives to just waiting for a market bottom?

Are you waiting to invest until you're positive the market has hit bottom? You may be increasing your odds of missing much of the upturn when it comes. Though past performance is no guarantee of future results, a sizeable portion of the returns made during a bull market often occurs in its early days, usually before it's clear whether the upturn will last.

In a way, bear markets are tailor-made for dollar cost averaging--investing the same amount of money at regular intervals over time. Even though it's difficult to watch your portfolio balance decline, a bear market also can help cut your average cost per share. With dollar cost averaging, your money buys you more of a given asset when prices are lower. While this strategy can't protect you against loss in a declining market or guarantee that your investment will gain, it eliminates the need to time the market. However, you also need to consider your financial and emotional ability to continue to invest in a down market. If you stop buying when prices are low, you're not reducing your overall cost basis by as much as if you had stayed the course until prices improved.

Dollar cost averaging isn't the only avenue for investing in the face of uncertainty. Using a core and satellite approach, you could set a strategic course with core holdings that you plan to hold for the long term. You could then take smaller positions in opportunistic investments that seem likely to make the most of short-term conditions or that hedge your other holdings.

Still another approach is value averaging. Rather than investing a fixed amount at each interval, value averaging involves setting a target amount by which you want your portfolio to grow, and then buying or selling the amount needed to maintain that figure. For example, let's say you wanted your portfolio to grow by \$1,000 a month. If the portfolio has increased in value by \$850 at the end of the month, you would invest an additional \$150. If it has dropped, you would invest enough to bring it back to the original amount plus \$1,000. And when it exceeds your target--let's say it's grown by \$1,250--you might even take profits by selling \$250 worth of shares. Those proceeds also could be reinvested later. (This example is for illustrative purposes only, and does not represent any particular investment.)