

AK COMMUNIQUE'

AK Financial Group
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COMING TO GRIPS WITH RISK

Tolerance for risk is an important factor in how you allocate your investment portfolio among different investments. While investments are subject to many different types of risk, risk tolerance typically refers to your ability to hold an investment when the return is either less than you expected or it declines in value. You should only assume a level of risk you are comfortable with so you aren't tempted to sell an investment when it is at a low point.

There are at least two factors affecting your risk tolerance. One is the level of investment risk appropriate for you based on your personal situation. Key factors to consider include:

- **Family Situation** - If you are married and in good health, you could potentially assume more risk than someone going through a divorce or who has health problems.
- **Age** – Typically, you may be less willing to assume risk as you age, since you are getting closer to the time you need your investments.
- **Employment** – Individuals with stable employment or with a spouse who also earns an income may typically be able to assume more risk.
- **Debt & Liquidity** – If you have sufficient liquid assets to weather temporary financial problems, you may typically feel more comfortable taking on a higher level of risk than someone who is strapped for cash or who has a high level of debt.
- **Insurance** – If you have insurance to cover the major risks in life including life, health, disability, and property insurance, you will probably be willing to assume more risk with your investments.
- **Other Investments** – The current composition of your portfolio will affect how much additional risk you may want to assume. If your portfolio already contains investments with significant risk, you might want to invest in more conservative vehicles. On the other hand, if your portfolio is primarily composed of conservative investments, you may want to assume a higher level of risk.

The other element is your emotional tolerance of risk. Even if your personal situation indicates you could assume a high level of risk, that may not be prudent if you don't feel comfortable with that risk. How you've reacted to the stock market fluctuations over the past few years should provide an indication of your emotional comfort with risk. Have you taken the fluctuations in stride or were you anxious about your portfolio's value? Did you frequently check your portfolio's value or did you only check occasionally? Were you tempted to sell all your stock investments or did you realize that downturns may be just a normal part of the investing process? What would you do if the stock market started to decline substantially again? How long could you withstand a declining market before feeling compelled to sell? After answering these questions, you should have a better feel for your emotional tolerance for risk.

Please contact our office if you would like to set up a meeting or conference call to assess your risk tolerance level.

NEW BANKRUPTCY LAWS

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 was recently signed into law by President Bush. Most provisions will take effect in six months. The new law offers protection for college savings and retirement plans.

College Savings Plans

- Full exemption is provided only for funds contributed to 529 plans more than two years prior to the bankruptcy filing. The protection is limited to \$5,000 for funds held for less than two years. College savings accounts less than one year old are not shielded at all under the new provisions.
- The account beneficiary must be the debtor's child, stepchild, grandchild, or step-grandchild. You cannot take advantage of the new protection by establishing a 529 account for yourself.
- "Excess contributions" to 529 plans do not qualify for exemption.

Retirement Plans

- The new act protects all tax-exempt retirement plan assets (including qualified plan, traditional and Roth IRA, 403(b), 457(b), SEP, and SIMPLE plan assets) from the claims of an employee's creditors in the event of bankruptcy.
- Plans other than traditional and Roth IRAs are protected without any dollar limit. Assets in traditional and Roth IRAs are protected up to \$1 million (indexed for inflation).
- If an IRA holds money rolled over from an employer retirement plan, those dollars are also fully protected, regardless of the million dollar limit.
- IRA assets may be eligible for additional protection, depending on the laws in the debtor's state of domicile.

If you have any questions regarding how the new bankruptcy laws affect you and your portfolio, please call our office.

MS MORTGAGE

30 Year Interest Only???

As the red hot real estate market continues to fly we have heard increasing talk of a "Bubble" or as Alan Greenspan calls it "Froth" in some markets. While we don't know if there really is a real estate bubble or when a perceived bubble may burst, we do know that there are ways to help protect ourselves just in case.

Many people have refinanced their homes to short term adjustable rate mortgages for the interest only options that they provide. Although that is a great alternative for people with a definite time horizon and for people who are stretching to afford something, it does carry some risk.

For those who purchased homes with no money or less than 20% down and have variable rate equity lines, the pressure is really starting to build. As the FED has continued with their measured interest rate hikes, the rate on most equity lines is creeping into the 7% to 10% range which is considerably higher than it was just a few months ago.

With this in mind, it could be an opportune time to refinance and pay down equity lines with a new 10, 15 or 30-year fixed loan. We can now offer a 30 year fixed interest only loan. That means no adjustment period – just a traditional 30 years fixed mortgage with an interest only option for the life of the loan. Please call Sandip at 949-788-7700 ext. 4 for a description of the program and a quote!

SIMPLIFIED EMPLOYEE PENSION PLANS (SEP's)

SEP plans help employers achieve 3 very basic goals. First, the employer may want to provide retirement benefits for him or herself. Second, offering a retirement plan may serve to reward and retain quality employees. And third, a retirement plan may help attract competent new employees to the business. If any of these motivations apply to you, then the simplified employee pension -- better known as "SEP" -- may be the plan for you. Advantages of the SEP include:

- **Minimal IRS filing and paperwork.** SEP's can provide significant retirement benefits to employees while minimizing administrative costs for employers. There is no 5500 filing required.
- **Low Set up Cost and Maintenance Fee:** SEP's have a significantly lower setup cost to the employer than regular pension or profit-sharing plans.
- **Employer Flexibility:** SEP's allow for discretionary employer contributions.

SOLO 401(k) PLANS

The one-participant 401(k) plan provides owner-only businesses with all the advantages of a traditional 401(k) at a level of cost and convenience that has not been an option for smaller businesses in the past. Advantages of the one-participant 401(k) include:

- **Higher contribution limits.** The plan allows for much larger tax-deductible contributions than available under a profit sharing, SEP or SIMPLE plan, giving you the potential to accumulate more retirement resources faster.
- **Easy maintenance.** Unlike traditional 401(k) plans, there is no complicated nondiscrimination (ADP) testing to worry about.
- **Minimal administration.** The annual DOL 5500 filing is not required if plan assets are less than \$100,000.
- **Account consolidation.** Consolidate your retirement assets from different plans and traditional IRA accounts into one convenient account.
- **Loan availability.** Just as in traditional 401(k) plans, there is the opportunity to take plan loans.

*Loans can have significant impact on plan values. Withdrawals prior to age 59½ may be subject to tax penalties.

REQUIRED MINIMUM DISTRIBUTIONS

This is a reminder to our clients who are approaching age 70 ½ this year and have a qualified retirement account. You must take your required minimum distributions (RMD's) by April 1st of the following year. Thereafter, RMD's must be taken by December 31st of the same year for subsequent withdrawals. Failure to do so may result in a 50% tax penalty on the amount that should have been withdrawn. There have also been many important changes to the rules and calculation methods that you must be aware of. If you fall into this category and would like to discuss it further, please call our office to set up an appointment.

E-MAIL ADDRESSES

If you have an e-mail account and do not receive regular e-newsletters from our office, please send your e-mail address to kczap@mscmail.biz. Please note the addresses of our staff:

General: akfinancial@mscmail.biz

Myra: mbrennan@mscmail.biz

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THANK YOU FOR THE REFERRALS

Many of you refer AK Financial Group to friends, colleagues, and relatives. We believe these referrals are indicative of your trust and confidence in our service. Please be assured that when you ask us to speak with someone, they will be treated with the same high standard of professionalism that we extend to you.

ADV

Any client who would like to see a copy of our firm's most recent Form ADV, please contact our office. We would be happy to provide you with a copy.

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