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Wealth Management for Changing Markets

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2012 Financial Planning Tips

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As 2011 comes to a close, we all have a few financial items that need to be cleaned up. It is also time to start thinking about your personal goals for 2012. We all have tasks we set out to do but never complete. Winter is the perfect time to get them done. Pick two or three goals to focus on— think about how good it will feel when they have been achieved.

Save More – the best investments are typically made when the markets are down

- 1) **Build and maintain your Emergency Fund.** Depending upon your risk tolerance, maintain at least one year of living expenses in very safe and liquid investments. This should improve your peace of mind. You never know what life will throw at you and having a backup fund, separate from your investment accounts will enable you to survive tough times.
- 2) **Maximize your Roth IRA contribution.** Roth IRA's are the best deal in town. Your investments can grow tax free – for life! For those under age 50 the maximum contribution is \$5,000; for those over 50 the limit is \$6,000. Single taxpayers are fully eligible if their income is under \$110,000 while joint taxpayers must be below \$173,000. Even if you do not qualify, make sure your children contribute to their Roth IRA.
- 3) **Maximize your retirement plan contributions.** Check your year-to-date company-sponsored retirement plan contributions to determine if they are on track to reach the 2011 limit of \$16,500 or \$22,000 if you are over age 50. The dollar limit for pre-tax contributions for 401(k), 403(b) and 457 plans is increasing to \$17,000 in 2012. If you turn 50 in 2012 you can contribute an additional \$5,500, for a total of \$22,500.
- 4) **Increase your contributions to your Health Savings Account.** The tax advantages of Health Savings Accounts (HSAs) make them even more attractive than IRA's, so make the maximum contribution. The 2012 limit for an individual has increased to \$3,100 and the family maximum is now \$6,250. For those over 50, there is an additional \$1,000 catch-up contribution. If you also have the opportunity to set pre-tax dollars aside in a Flexible Spending Account (FSA) for medical and child care expenses, take advantage it.
- 5) **Invest in your children's or grandchildren's College Savings Plans.** Save early and often – private colleges cost approximately \$45k to \$50k per year! While there are several choices for college savings, since the Kiddie tax laws changed in 2007, 529 college savings plan have become the only game in town. They allow both tax-free growth of assets and distributions for qualified education expenses.

- 6) **Small business owners should open a retirement plan.** Small business owners and the self-employed are eligible to open a retirement plan before year-end. Two of the best types of retirement plans to consider are the SEP IRA or the Self-Employed 401(k) plan. These plans allow the self-employed to contribute and save up to \$49,000 in 2012. For more pros and cons about your retirement savings choices, give us a call.

Spend Less

- 7) **Cut unnecessary expenses.** We all spend money on things we do not need or use. Go through your budget and cut out all unnecessary and under-utilized items. Make sure your income supports your expenditures and allows you to save 15% or more per year.
- 8) **Monitor your spending.** It is difficult to achieve your budget goals if you do not know where you are. Consider using one of the many tools available to help you organize your finances. Mint.com is an online service which can aggregate bank and investment accounts, as well as credit cards and loans to give you an up-to-the minute look at your spending. Quicken is a well-known software package that works in much the same way.
- 9) **Get rid of expensive debt.** This is an important habit to break. Credit card balances should be paid off in full every month. This will improve your credit rating and save you fees and interest charges.
- 10) **Current rates continue to make mortgage refinancing attractive.** Rates for mortgages remain at historical lows which means the opportunity to save money by refinancing continues to be an attractive strategy. Current rates for 30-year mortgages are under 4.0% while rates for Jumbo loans have fallen to 4.5%. If you haven't refinanced and would like to know if it is a good strategy, please get in touch so that we can discuss your options.
- 11) **Pay your estimated taxes.** It is better to pay now than to risk a penalty later.

Clean-up the Clutter

- 12) **Close unused bank, brokerage and credit card accounts.** Old accounts do not die by themselves. Even if you have a zero balance, banks and brokerage firms will leave your accounts open and may even charge fees if minimum balances are not maintained. It takes about two minutes to draft, print and mail your closing account letter.
- 13) **Review your credit reports.** Maintaining a high credit score can help you get loans when other's cannot. Each year you are entitled to one free copy of your credit report from each of the three providers. This gives you the opportunity to review your record three times over the course of a year. Visiting www.annualcreditreport.com will enable you to access the three major credit report suppliers free of charge.
- 14) **Telephone the national *Do Not Call Registry*.** If you want to stop annoying phone solicitations on both your home and cell phones, visit www.donotcall.gov or call 1-888-382-1222.

- 15) **Reduce unsolicited credit card and insurance offers.** Tired of annoying "pre-approved" offers for credit cards and insurance? The four major credit bureaus have the right to sell your information to companies that want to offer you a credit card. Fortunately, the credit bureaus must provide a way for consumers to have their names excluded from pre-approved lists. By calling **1-888-567-8688** or visiting www.optoutprescreen.com you will remove your information for five years.
- 16) **Screen out junk mail.** The Direct Marketing Association has developed a Mail Preference service that allows you to select the direct mail you would like to receive and that which you do not. Their website: www.dmachoice.org will guide you through the process.

Investments and Taxes

- 17) **Don't take more risk than you can handle.** Recent volatility reminds us of the meaning and magnitude of investment risk. Now may be a good time to re-evaluate your risk tolerance, update your Investment Policy Statement (IPS) and rebalance your portfolio.
- 18) **Managing municipal bonds has become more difficult.** The failure of several municipal bond insurers has forced investors to evaluate municipal bonds based upon their underlying credit. Many bonds that used to be AAA are now rated BBB or lower. As a result, your portfolio may be at greater risk than you realize.
- 19) **Manage your capital gains and losses.** Take your losses short-term (under 1 year) and gains long-term (over 1 year). The annual limit for deducting capital losses is \$3,000. You can carry forward excess losses for your lifetime in most states and at the federal level. However, the State of New Jersey does not allow loss carry forwards or mixing short and long term offsets.
- 20) **Consider using your lifetime gift exclusion.** At the end of 2012, the \$5 million lifetime gift tax exclusion will expire. Whether it will be extended is anyone's guess. If significant gifting is part of your financial plan, it should be a top priority for 2012.
- 21) **The annual gift tax exclusion remains \$13,000.** You and your spouse can each give any individual up to \$13,000 in 2012 and not have to file a gift tax return. In addition, the gift will be received tax-free by the recipient. However, it is important to keep records of your gifting.

Legal

- 22) Update your Wills, Powers of Attorney and Medical Powers of Attorney at least every five years. Having a current will is essential in today's world.
- 23) Children over age 18 should have their own set of documents in place.

Other

- 24) **Do something special for your spouse every month.** This is your most important relationship and it requires care to succeed.
- 25) **Give regularly to charities.** Helping others can bring you good fortune.

Suggestions for New Year's Resolutions

Put more focus on something you love.

Is there a hobby that you love to do and are passionate about, but have been neglecting? This year, make the change. When you do what you love, you are in a more passionate state of mind, and always doing your best because you enjoy what you do. You'll be better able to handle obstacles that come your way because you enjoy the day-to-day activity of doing what you love.

Change something that isn't working.

Reflect on your past year. Is there something that you have put a lot of time and energy into, but didn't end up anywhere (ex. dead-end job)? Consider creating a New Year's resolution to change or replace something that isn't working in your life.

Break a bad habit.

Do you have bad habits and behaviors that have become an automatic part of your daily routine? Over the past year, maybe some of these have even become automatic. For example, you may often wake up in the morning thinking negative thoughts, which puts you in a bad mood for the day. Perhaps you've created a habit like snacking every night while watching TV. Maybe this should be the year to break a bad habit.

Work to stay connected to friends.

When we are busy, the first thing that we often let slip are our personal relationships. I know I am guilty of this. But in difficult times, these are the people we turn to for support and guidance. These days it is even easier to stay connected with social networking sites such as Facebook and the ability to send text messages from our phones. Make the time to reach out to those you have lost touch with over the past few years.

Good luck in 2012!

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