

Diving For Dollars

By Janet Gardner

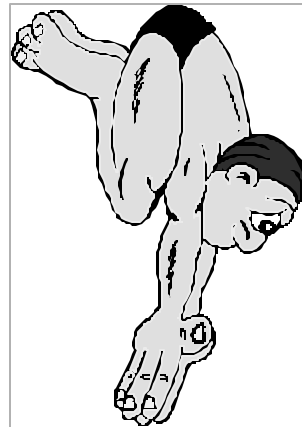
When I was a little girl, one of my pastimes during summer was to dive for pennies in my uncle's pool. Of course it kept me busy and out of everyone's hair but I also got to keep the money. My grandparents, who were watching me, told me I could keep the pennies if I saved them. Otherwise I had to give them back for one of my cousin's diving sessions.

This fun activity began to teach me the art of saving. It is so important to teach our children and grandchildren about saving, budgeting, investing and managing a checkbook. Without understanding these basic skills they will be disadvantaged when they become adults. Unfortunately, our schools do not have classes that can teach these skills but perhaps grandparents can do it.

Grandparents have a special role in their grandchildren's lives. Yes, they have completed the job of raising their own kids but they have a wealth of knowledge to share with the grandkids. Grandparents also remain a constant no matter what happens, such as divorce. Lots of grandparents are also stepping back into the role of caregiver by raising the grandchildren for the working parents so they have even more opportunity to influence their financial literacy.

Start by showing the younger ones how to save for something they really want such as a video game or other toy. Have them put their allowance or "diving" money into a piggy bank. Have them track how much they put in so they will know when they are approaching their target. Perhaps you can even match a certain a portion or provide them with

"interest" so they have incentive to more quickly reach the goal. The older ones can save for larger items, such as a special piece of electronic equipment or even a used car. Take a look at www.feedthepig.org for saving tips.



Another way to teach kids is to provide them with a "checkbook." Have them actually write a check and record deposits. Instruct them how to balance the checkbook and reconcile it too. Consider allowing them to "purchase" small items with the checks, such as fun pencils, gum or coupons for outings. Make saving something fun and kids will be eager to put money away for that special something.

The best way to teach is to set an example yourself. You have to show children that they need to wait until they can afford something before they purchase it.

Visit www.itsahabit.com. Expose the younger kids to Sammy Rabbit and his musical messages about savings.

You can always revert back to my childhood method of diving for pennies but, with inflation, it's probably diving for dollars now.

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TIPS & ALERTS

IRS Refund-Invest, Retire and Save

By Eva Meza

I don't know about you but when I get my tax refund, I'm absolutely overjoyed! It's like getting an extra paycheck for me. So when your windfall comes, what should you do with it? It all depends on what is most important to you. Be careful not to misinterpret important and wise decisions with wanting and money wasting decisions.

A frequently recommended tip is to pay off credit card debt first! It's not as much fun as buying that new Xbox360 or PS3 (FYI - retail cost \$400-600!) but think of the weight lifted off your shoulders once you have one less bill to worry about. Another extra payment you can make is to your mortgage principal.

Bringing down that principal is oh so satisfying. Just think of all the interest you can save by making either of these payments.

Put away cash for the unexpected. If you get injured and can't work, how will you get by? We should have at least 3-6 months worth of salary saved to cover spending needs. Be sure to put the money in a liquid vehicle, such as a savings or money market account, which allows for easy withdrawal.

A warm-hearted and caring thing to do is to donate to a charity of your choice. A gift that also gives back; giving you a tax break for the current year. Make sure to research the way the charity uses donations and how efficiently they raise money for their cause.

See www.charitynavigator.org for a myriad amount of information on charities.

Pay yourself! A little like saving for the unexpected with one



catch: Try not to touch this money until you reach retirement! Face it, you can't assume that someone will be there to take care of you during your golden years. In this age of shockingly rising costs of healthcare and prescriptions, you'll need to make sure that you invested in your retirement plan, 401(k) or IRA

All in all, you have several options to consider. Remember, plasma TV's, weekend getaways and wardrobes filled with designer clothing and shoes aren't accepted by bill collectors! The choice is yours.

Thank you
for your
referrals

Tax Notes

Overpaid Taxes? Act Now!

By Tom Trent, EA

Currently there are a couple of cases making their way through the courts that, depending on your circumstances, might affect your prior years' taxes.

The first, in the Federal Claims Court, involves taxpayers who had a policy with a mutual insurance company that demutualized (converted to a stock company) and either received cash or stock which they subsequently sold

resulting in taxable income. The case challenges the IRS position that shares received in a demutualization have zero basis. This case, if decided in the plaintiff's favor, could affect both your Federal and state tax returns.

The other case involves the way most states treat the taxation of municipal bond interest. In early 2006, the Kentucky Court of Appeals ruled that the state's practice of exempting local bonds from Kentucky income

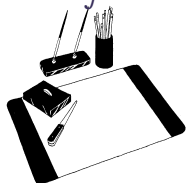
tax while taxing out-of-state bonds was unconstitutional because it violates the commerce clause of the U.S. Constitution. Because of the widespread ramifications, it is believed that the U.S. Supreme Court will take on this case. It is also possible that, instead of this case, the Court will hear a New Jersey case that also involves the commerce clause, albeit for a different reason.

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From The Corner Office

The Stock Markets (Here They Go-There They Went-Again)

By Mitchell Freedman, CPA/PFS,AIF®



Recently the global stock markets had their worst weekly performance in about four years. In the U.S., equity sub-asset classes plummeted in value by 3%-9%. The average U.S. equity mutual fund declined 4.5%, while the average international equity mutual fund declined 5.7%. The Standard & Poors 500 Index declined 4.4%. Why did it happen? What does it mean? What should you do? These are three questions that are on the minds of many investors. I will attempt to address all of these questions in this column.

WHY DID IT HAPPEN?

As I often remind clients, stock market performance is unpredictable. As much as we would like to believe that there are investment gurus out there, nobody can consistently predict how markets will react in the short to intermediate term. The global stock markets have had a substantial bull market run for the

last several years. Some markets, like those in China and other emerging markets had sensational runs. It had recently been reported in the financial media that many Chinese investors were going into debt to participate in the "no-way-to-lose" Chinese stock market. Sound familiar? When investors have unreasonable expectations they will inevitably be disappointed and worse, perhaps be wiped out. While hindsight will be the only true indicator, in my opinion this is a normal and needed correction in order to continue a normal and healthy global stock market.

WHAT DOES IT MEAN?

In the simplistic sense it means there were more sellers than there were buyers. It is the economic concept of supply and demand. If you are wondering if there are underlying problems that could mean that this decline may continue and become more hurtful to investors let me attempt to alleviate your concern. I believe that most eco-

nomics indicators and fundamentals in the U.S. are sound. Employment is healthy and the negative news is primarily in the areas of new housing, sub-prime lending, and energy costs. Therefore, at present, I am holding the opinion that this period is a technical correction to the global equities markets.

WHAT SHOULD YOU DO?

In my opinion, investors should be disciplined and stay the courses of their investment plans. Stock prices can (and sometimes do) increase as rapidly as they decline. With a well-diversified portfolio – in sync with your goals, risk tolerance, and time horizon your investment performance will likely fair better than it would if you tried to time the markets. Over and over again we see the same cycles of equity performance. I see no reason to believe that this time is different. Nevertheless, only time will tell.

Tax Notes (Continued)

If that happens, the Kentucky case could be sent back to the Kentucky Appeals Court for reconsideration in light of the New Jersey decision.

The statute of limitations for most taxpayer's 2003 returns ends on April 16, 2007 (unless they had obtained an extension of time to file their tax return). Since neither of these cases are likely to be resolved by that date, we will attempt to isolate our clients who we believe may be affected and make recommendations to them. Those taxpayers who are not our clients should examine their 2003 tax

returns to see if they're affected by either demutualization income or high out-of-state municipal bond interest or ask their tax preparer to do so. If the dollar amounts are large enough to be worth the bother, they should consider filing a "protective claim" in order to keep the statute of limitations open in the event that the plaintiff prevails in either case.

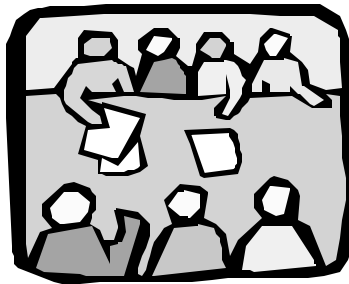


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Heard In The Hall

Mitchell Freedman was the moderator of a panel titled "Financial Literacy, It Must be Your Priority" and a speaker for a session titled, "Asset Allocation for a Secure Retirement" at the AICPA PFP Conference, which was held January 7-10, 2007 in Las Vegas. Also attending the conference was Tad Jakes. On January 23-25, 2007 Mitch attended a course in Santa Fe, NM, given by the Center for Fiduciary Studies to become an Accredited Investment Fiduciary® (AIF®). Upon conclusion of the course work he passed the examination to obtain this credential. Representing both the California Jump\$tart Coalition



and the California Society of CPAs, Mitch presented "Financial Smarts for Teachers" workshops on January 27th for California State University, San Bernardino and on February 23rd for California State University, Northridge. On February 8th Mitch was videotaped providing content for a new Internet web site, soon to be launched by the British web site, VideoJug.com, on the subject of personal finance issues.

Mitch was featured in an article titled, "Directing Actors' Financial Pictures," in Dow Jones Newswire February 1, 2007.

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