

Financial *notes*

INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

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Dear Scott,

Welcome to the April edition of my monthly financial newsletter. How is your year going? If you feel like you are getting off track from your financial goals for the year, don't wait until December to adjust course! Please feel free to give me a call or drop me an email if you have any sort of question that I may be able to help with.

Pay Yourself First

Set your savings on autopilot

Improving your finances must be one of the most popular New Year's resolutions (along with losing weight). That's a good thing, and it always brings new clients into our office at the beginning of the year. Having sat down with a number of families in the last three months, I've seen a wide disparity of wealth and debt. What always surprises me is that income is almost irrelevant.



This year, I've met with families who have incomes from zero (unemployed or retired) to well over \$200,000 a year. I haven't seen any correlation between how much they make and how much wealth they have accumulated. People are so focused on their income, but if they don't keep any of it, it doesn't matter how much they make! The only thing that mattered was how much people are setting aside to invest. Everyone wants to do this, but not enough people actually do it. It's just like eating right - everyone knows what is good or bad for you, but so many Americans choose to ignore common sense. For investors, it's not realistic to think you can put off saving until next month or next year - you have to save every month. And since everyone is investing in the same stock and bond market, the people who grow their wealth the fastest are those who choose to save the most and stick with it. Your savings rate may be a bigger factor in how much you accumulate than what fund you invest in. Put your saving on autopilot by having money withheld from your paycheck

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The best compliment you can give me is the referral of a friend or family member!

Scott Stratton, CFP(R)
phone: 214-276-0808
email: ssratton@foxcoinvest.com

THIS MONTH, SCOTT IS...

This month, my brass quintet, the Perennial Brass, is giving a recital for the Southlake Apex Arts League on Tuesday April 22 at 7pm in the Carroll Senior High Auditorium. While I love performing the orchestral

or having it directly deposited into your IRA each month.

	<u>Yearly</u>	<u>Monthly</u>
<u>401(k)</u>	\$15,500	\$1,291
Over 50	\$20,500	\$1,708
<u>IRA</u>	\$5,000	\$416
Over 50	\$6,000	\$500

Last Call for 2007 IRAs

There is still time to fund your 2007 IRA before April 15. For 07, you can contribute \$4000 to a Roth IRA if your modified adjusted gross income was under \$99,000 (single) or \$156,000 (married filing jointly). If you participate in a retirement plan, you can deduct a traditional IRA if you made under \$52,000 (single), or \$83,000 (married). If you make too much for a Roth IRA, you can contribute to a non-deductible IRA and then convert it to a Roth in 2010, when the income limit (\$100,000) for Roth conversions expires. Everyone can benefit from an IRA - don't pass up the chance to make your contribution for 2007.

Fundamental Indexes

The first mutual fund I ever owned was an index fund - the Vanguard 500. I don't own it today because I believe that there are better opportunities elsewhere. However, the fact is that as many as three-quarters of all mutual funds do not beat their index over 10 years or more. While I remain committed to actively managed funds, I think there are some exciting developments in indexing strategies which merit a closer look from long-term investors.



Traditional indexes are weighted by the market capitalization of the stocks. This means that the largest stocks have a huge impact on the performance of the index. In the S&P 500 for example, the top 10 stocks comprise 19.8% of total assets.

One reason that people don't like index funds (myself included), is that the fund tends to overweight the overvalued stocks and underweight the undervalued stocks. For example, index funds had a high percentage in tech stocks back in 1999 and 2000. That works well when the market is going up, but hurts you when the market decides it doesn't like richly valued stocks.

The new solution is to take the same basket of stocks and to weight

repertoire, working with the same quintet for six years has been such a richly rewarding experience as a musician. For details on the concert, please visit: www.apexartsleague.org.



them based on their fundamentals, specifically, either their earnings or dividends, rather than market cap. A company that makes \$2 billion in profits gets twice the weighting of a company with \$1 billion in profits. What does this mean for investors? Looking at the ten year period from 1998 through 2007, weighting the largest 500 stocks by earnings outperformed the S&P 500 index by 1.85%, but with a lower standard deviation. Better performance with less risk? Time will tell, but we may have a better mousetrap here.

Past performance is no guarantee of future results.

Source: Wisdomtree.com

There seems to be some perverse human characteristic

that likes to make easy things difficult.

WARREN BUFFETT

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

Scott Stratton, CFP(R)
16950 Dallas Parkway, suite 100
Dallas, TX 75248

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