

Financial *notes*

INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

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

Issue 3, Volume 2

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Dear Scott,

Welcome to the second email edition of my monthly financial newsletter. I've gotten terrific feedback from clients on last month's edition, so we are now going to use email as the primary format. The goal of my newsletter is to educate you to be a better investor and motivate you to be a better saver. If you have any questions or topics that you would like to see covered in future editions, please reply to this message. Also, you are welcome to forward this email to any of your friends or colleagues who might benefit from it. If they'd like to subscribe, all they need to do is click on the "join our mailing list" link on the right!

Saving money at home

The first in a four-part series to help you save more

Saving = Income - Spending

It's that simple. If you want to save more money, you can either increase your income or decrease your spending. Since most folks receive a fixed salary, increasing your income is not an option. Over the next four issues, I'm going to discuss four ways to save big, starting this month with purchasing a home.



If you think your home is your biggest asset, you're not thinking like a millionaire. Your home is your biggest liability. A bigger home means not only a bigger mortgage, but higher property taxes, insurance, utilities, repairs, etc. While I hope all of my clients enjoy their homes, I want to caution people to make sure they do not buy more house than they can afford. Banks and realtors want you to buy the most expensive home possible. Just because you "qualify" for a \$400,000 mortgage, doesn't mean it is a good idea to do it! Maybe a \$250,000 home would be sufficient. Be careful you do not become house rich and cash poor - your home will be in jeopardy if

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

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THIS MONTH, SCOTT IS...

On Sunday August 25, I will be presenting a seminar, "Questions you need to ask about your financial well-being" at **Une Affaire au Vieux Rouge**, Dallas' premiere event and bridal show. We are one of three sponsors for the event, which runs from 11:30 to 5:30 at the Old Red Courthouse in

you lose your job or have any type of financial set back.

Banks determine your eligibility for a mortgage using a ratio called PITI (principal, interest, taxes, and insurance). Typically, banks will require that PITI is 32% or less of monthly income, and all monthly debt payments (credit card, cars, etc), be under 38%. In the past, these ratios were as low as 22% and 28%. Today, we are seeing loan defaults and foreclosures because the banks were willing to give bigger loans than homeowners could handle! Use a more conservative ratio to determine what you can afford, and stick to your budget. Make sure you can continue to fund your 401k and IRA. If you have an Adjustable Rate Mortgage (ARM), look into refinancing as soon as possible.

downtown Dallas. My seminar is at 2:30 pm. Admission is \$25 at the door; contact me for a \$10 VIP ticket.

Hope to see you there!



What is a Safe Harbor Plan?

Traditionally, 401(k) plans have been subject to "top-heavy" testing including Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) testing. This means that sometimes an owner or "highly compensated employee" may have money returned to him or her, even though they contributed less than the \$15,500 limit (2007). If this has happened at your company, I would like to talk with you about a 401(k) plan **with safe harbor** provisions, which can eliminate the top-heavy testing requirement and allow each participant to contribute the maximum. Please call me at 214-276-0808 for details.



The Individual 401(k)

The 401(k) plan has become a key tool to help people save for their long-term retirement needs. While 401(k) accounts are nearly universal at large companies, their start-up costs and administrative expenses have been prohibitive for the self-employed. Today that is changing as mutual fund companies are sponsoring turn-key 401(k) plans. Often called an individual 401(k) or solo 401(k) plan, this is not a new type of plan. Rather, it is a standard 401(k) where the fund company is offering pre-packaged plan documents, saving the participant the cost of a custom tailored 401(k).

While an individual 401(k) carries the same maximum contribution as other plans (\$45,000 in 2007), you may be able to contribute more

to the 401(k) if your income is below \$225,000. For example, an individual making \$100,000 could contribute \$34,087 to a 401(k), but only \$18,587 to a SEP, or \$13,271 to a SIMPLE.

One of the unique provisions of the Individual 401(k) is that unlike a SEP or IRA Rollover, a participant can take loans from the 401(k). With an IRA, if the owner takes a premature distribution, they will be hit with a 10% penalty, plus ordinary income tax (up to 35%). With a 401(k) loan, you borrow the money tax-free as long as you pay it back. The interest on the loan is paid into the account, so you are paying yourself. You may borrow up to 50% or \$50,000, whichever is less. While I always recommend against taking money out of a retirement plan, the reality is that it does happen. I'd suggest a self-employed person roll their IRA into the Individual 401(k) and take a loan rather than taking an IRA distribution and losing up to 45% in taxes.

(Source: AIG SunAmerica)

*Money won't make you happy...
but everybody wants to find out for themselves.*

ZIG ZIGLAR

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)

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