

Smart Insights

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Smart Investments Advisory Inc.

HAPPY NEW YEAR!

Here's a few New Year's Resolutions to consider:

1. Get out of debt. Interest rates are very low, but that doesn't mean it makes sense to go further into debt. It does mean that the debt doesn't cost as much and more can be used to pay down principal. Use this opportunity to do that. Consumer debt has a variable rate of interest which means that the interest rate you are paying can go up, costing you more. It's going to happen, we just don't know when. Pay it off and you won't need to worry about it.

2. Get your tax information together early. Then you'll have a chance to make sure you have it all together before you meet with your accountant. Many people have investments that report tax info later in the year, so compare 2011 tax documents with last year's – and don't forget to look at new investments made in 2011. This will help eliminate the panic call to your investment advisor at noon on April 15.

3. Plan your IRA deposits. Every April, there's a burst of activity from clients who need to find a way to raise cash to make their account contributions. A less stressful way to handle this is to make monthly contributions to your account. That way, April 2013 will show up and it will already be invested. Another benefit of this idea is that tax-advantaged earning will begin earlier – and add up to more in the long run!

There's no way to know what 2012 will bring, but a little planning can help take the stress out of the coming year. That will give you the time to deal with the things that really matter – like where to spend your vacation or the money you've saved by thinking ahead!

Here's our wish for a happy, prosperous, healthy and eventful 2012. As always, we are here to help – and we look forward to helping you.

Looking Forward

I don't really understand why we assign so much personality to a calendar year, but it seems like a lot of people – many are small business owners – I know are happy to see 2011 fading in the rear view mirror.

We could spend a lot of time reviewing what went wrong, or think about what went right and build upon it. Opportunities are usually abundant during difficult

times, so that will be our focus (opportunities, not difficult times!) for 2012.

Here's to a great New Year!

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What Did You Say?!?

Hello and welcome to round 2 of “What did you say?!?” In case you missed our holiday issue, this is a new section which goes over key vocabulary words or phrases commonly used in the financial industry. Last issue we covered Mutual Funds and the Bear and Bull markets. As always, we are here to help, so if there is any phrase or word that you don’t fully understand, please feel free to email me and I will include that in an upcoming issue.

Cost Basis:

You might ask yourself “Why does this matter on investments?” When we purchase something like a house, car, clothes or even a stock, we do this in hopes of some type of gain. Whether it’s having an amazing jacket that will be “in” style for years to come or the second home at your favorite vacation destination, it’s important that our investments are worthwhile. Unfortunately, besides the jacket, when we sell, those investments are subject to taxes, and we all know the IRS will get their money one way or the other. In certain situations, having a cost basis is a necessity when dealing with a profit or loss. When you purchase a stock or mutual fund, you receive a trade confirmation from your brokerage firm. This confirmation has all of the information needed to maintain your cost basis. It provides the date, amount paid and the amount of shares purchased. Recently, a new law was passed that requires Mutual Fund companies to maintain cost basis information going forward, but prior to this it was the clients responsibility to know where and when they acquired the assets. If you have moved or transferred firms, make sure your cost basis has either followed the accounts or you can provide this information to your broker.

Here is a good example of why cost basis is important:

Let’s say you purchased 100 shares of Exxon Mobil back in May of 1985. You would’ve paid somewhere around \$49.25 creating a cost basis of \$4925 plus any fees or commission. Today Exxon is trading around \$87 per share. If your account does not reflect the cost basis thus showing a cost

of \$0, if you sold today, the IRS will tax the full \$8700 as a long term capital gain. However, if you maintained cost basis records you would be able to reduce the taxable gain by the \$4925 you paid for the stock, thus lowering your gain to \$3775. Of course this works the other way, when you have a loss, it is a taxable deduction! Please note that this applies to any brokerage account (individual, Trusts, Joint, college savings accounts etc.) as assets in IRA’s or 401k’s are not subject to capital gains or losses.

-Ali Arciniega

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The Price of Education

While it is often stated that a college education is priceless, the reality is that costs continue to rise each year. The good news is that many sources of financial aid are available to students and their families. For example, during the 2010–2011 academic year, \$227.2 billion in financial aid was distributed to undergraduate and graduate students in the form of grants from all different sources (see footnote). Moreover, there are plenty of savings vehicles that can be utilized.

The table illustrates the trends in college pricing for the 2011–2012 academic year, according to the College Board's Trends in College Pricing. When compared with the prior year, the various fees are up at least 4.4%, with a high of 8.3% (tuition and fees only). It appears that the rate of growth in tuition and fees has been more rapid at public four-year institutions than at private four-year institutions.

These costs might seem somewhat alarming to most people (especially to those parents who have put off saving and planning for their children's college). But about 44% of students who are enrolled at four-year colleges or universities attend institutions that charge tuition and fees of less than \$9,000 per year. When taking into account only public four-year colleges and universities, this number climbs to 61%. While private four-year institutions have a much wider range of tuition and fee charges, only about 11% of all students attended colleges (public and private) with tuition and fees totaling \$33,000 or higher per year.

In any case, it would be wise for parents to start saving for college as soon as possible and to assume children will attend a private four-year institution (assume "the worst"). If they receive grants and/or scholarships or decide to opt for a more affordable option, think of all the fun things you can do with the excess cash! There is an array of college-savings options available, and many offer tax-deferred growth and tax-free withdrawals (when used for qualified higher-education expenses). Some of the more popular plans include 529 plans and Coverdell Education

Savings Accounts (ESA). There are contribution limits to the various plans, and plenty from which to choose, so it would be wise to consult with your financial advisor to see what is right for you.

As with any goal, whether you are saving for retirement or a vacation home, the key is to start saving early (don't wait until your child is born), and save often. While it's easy to procrastinate when it comes to initiating a long-term college savings plan, the sooner you begin, the more likely it is that the plan will succeed. By starting early, you are taking advantage of the power of compounding and, in this case, time can be your best friend.

Trends in College Pricing: 2011–2012 Academic Year

Type of college/ university	Tuition & fees	% change vs. prior year	Including room & board	% change vs. prior year
Public 4-year (in-state student)	\$8,244	8.3%	\$17,131	6.0%
Public 4-year (out-of-state student)	\$20,770	5.7%	\$29,657	5.2%
Private 4-year (nonprofit)	\$28,500	4.5%	\$38,589	4.4%

Source: College Board's Trends in College Pricing, 2011.

¹College Board's Trends in Student Aid, 2011.

Now, Time for Some Fun Facts!!

A toaster uses almost half as much energy as a full-sized oven.

Whispering is more wearing on your voice than a normal speaking tone.

In Quitman, Georgia, US, it is illegal for a chicken to cross the road.

There are more than 1,000 chemicals in a cup of coffee. Of these, only 26 have been tested, and half caused cancer in rats.

The powder on chewing gum is finely-ground marble.

The 7-Eleven Extreme Gulp is 50% bigger than the volume of the average human stomach!

The oldest glowing lightbulb was first switched on in 1901 and lives in a fire station in Livermore, CA. It is known as the Centennial Light.

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