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Five Seasons Financial Planning

Guiding You to a Brighter Financial Future

Seasonal Musings

June 2008

Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning LLC (FSFP). In this issue, we'll be discussing the hidden 401(k) fees you're paying, a prediction for a market crash later this year, and a recent IRS ruling. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

A Programming Note of Interest

Bloomberg Report on Hidden 401(k) Fees

The vast majority of you contribute to 401(k) plans as a critical part of your saving for retirement. But just as with any investment program, fees and expenses related to your 401(k) plan will be key determinants of your investment success. Unfortunately, it's very difficult for the average employee (and even for the average 401(k) plan sponsor) to determine the various layers of expenses associated with their plan.

These fees and expenses are levied against the accounts of you, the plan participants, to pay for the management of the mutual funds themselves and to various service providers, including plan administrators, investment consultants, ERISA attorneys, etc. Plan costs vary widely, and tend to be particularly onerous for smaller plans.

It's worth knowing the cost structure of your 401(k) plan.

You're paying the fees, it's your retirement on the line, and you can do something about it if you're dissatisfied. Your plan sponsors have a fiduciary obligation to you, and part of that responsibility is to ensure that the expenses incurred by the plan are reasonable for the services provided.

As a first step toward educating yourself, there will apparently be a special report on Bloomberg TV tonight at 7:00 MST about the hidden fees of 401(k) plans. I haven't previewed the show, but the topic is sorely in need of airing. There are alternatives to high- priced retirement plan providers, even for 401(k) plans as small as one participant. As an employee (or as a plan fiduciary), it's in your best interest to make sure the fees you're paying are justified.

A Market Crash Later this Year?

Speaking of Bloomberg (and I try not to) there was a story yesterday about a market strategist at the Royal Bank of Scotland who had apparently correctly forecast the bursting of the subprime bubble, and was now going on the record to predict a market crash by this fall bringing the S&P 500 down to 1050 (more than 20% below current levels). A client asked me what I thought of this, and although market predicitions are futile, here's my response for what it's worth:

Typically, market crashes are preceded by a prolonged period of excess returns. Think of Japan in the '80s, tech stocks in the late '90s, residential real estate more recently or the Chinese stock market up until a few months ago. With the S&P 500 essentially where it was 9 years ago, I think you'd be hard- pressed to say returns have been excessive.

Yes, the financial services industry is now one nightmare after another, and this will have repercussions on the economy as credit availability tightens. But on the other hand, financials are now only the third largest sector in the S&P 500, down from being the largest and now behind both technology and energy. The tech sector (and for the most part corporate America in general) is awash in cash because of the belt tightening after the tech bubble burst. And I don't have to tell you about profitability in the energy sector.

It's also important to keep in mind that the relationship between economic activity, including corporate profits, and stock market returns is very tenuous. We may indeed still have a recession this year or a prolonged period of lukewarm growth, but this won't necessarily be accompanied by poor market performance.

My best guess is that the market will muddle along with a continuing rotation from value stocks to growth stocks much as we saw today (and as I keep mistakenly thinking, from small cap stocks to large) . Maybe the Dow will take out it's lows from earlier this year, but a lot of the other stock indices have been holding up remarkably well by comparison in recent weeks.

But even if I'm wrong and the market does crash, your pain will be much the less with a diversified portfolio customized to your risk tolerance and time horizon.

On Another Cheery Note
The IRS Puts Its Foot Down

Most of you are probably familiar with the "wash sale" rule. Basically, losses realized on the sale of securities can't be deducted if substantially identical securities are purchased within 30 days before or after the sale. But what if I (hypothetically of course) sold ABC stock at a loss in my taxable account, and bought it right back in my IRA? Would this violate the wash sale rule, and if so how would the IRS ever know?

Well, it's my understanding that the IRS had never specifically ruled on this tactic ... until now. Earlier this year, the IRS specifically stated that this scheme is now a violation of the wash sale rule. Where has all the fun gone?

Five Seasons Financial Planning LLC is a Fee-Only financial planning and investment advisory firm registered with the state of Utah. Five Seasons offers financial planning services on an hourly basis, as well as discretionary investment management. To view past issues of "Seasonal Musings", click **here**.

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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