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Seasonal Musings

May 2007

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Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning (FSFP). In this issue, we'll be discussing tax-efficient investing, the demise of fee-based accounts, finding honest investment advice, and some happy developments at Five Seasons. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

Taking the Bite Out of the Taxman

Tax-Efficient Equity Investing

With tax returns still fresh in your minds, it's an opportune time to review the tax-efficiency of your investments. Lipper, the mutual fund research company, reports that capital gains distributions from equity mutual funds rose by about 80% in 2006 from a year earlier. They estimate taxpayers paid more than \$14 billion just as a result of buying and holding stock funds. In light of the recent performance of equity markets around the world, 2007 threatens to be another punishing year for capital gains distributions.



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So what can you do to try to minimize this tax bite while maintaining your exposure to the markets? Once again last year, passively managed vehicles (index and exchange-traded funds) lived up to their billing as tax-efficient. For example, none of the iShare family of equity ETFs paid any capital gains distributions and none of the Vanguard index funds we frequently use did either. If you still prefer some exposure to actively managed mutual funds, consider putting them in your 401(k)'s or IRA's.

Another possible solution is to hire a manager to oversee a separately managed account (SMA) tailored to your tax situation. With a mutual fund, all investors are treated the same by the portfolio manager even though they might have very different tax situations, objectives, risk tolerances, preferences and constraints. By contrast, when we develop the investment policy statement for each client's SMA, we customize it to take into account all these factors, with particular emphasis on tax management.

What Now?

The "Merrill Lynch" Rule Revisited

As we mentioned in the last issue, the Supreme Court has struck down the so-called "Merrill Lynch" rule, doing investors a big favor. In effect, fee-based accounts now being offered by broker-dealers will go the way of the dodo, since the SEC has decided not to appeal the ruling.

There are 1 million broker-sponsored, fee-based accounts accounting for \$300 billion in assets. If you own one of these accounts, you will now have a choice to move either to a traditional commission-based brokerage account or to an "advisory" account in which the broker will be held to a fiduciary standard. Either way, this should help to clarify to financial consumers the standard of care they can expect from their advisors.

"It's a good thing" --- Martha Stewart

"Where Do I Find Honest Investment Advice?"

The WSJ Suggests a Fee-Only CFP® Professional

In case you missed it last week, the Wall St. Journal suggested a reader looking for honest investment advice seek out a Fee-Only CFP® professional. Here's an excerpt from the article:

"When it comes to personal finance, choosing the right adviser is one of the most important steps you can take. After all, this is your life savings we're talking about, so it's worth doing a little legwork before you take someone's advice.

Start by considering individuals who work independently. That often means hiring an adviser who gets paid for his or her advice, or for boosting your nest egg, rather than for making trades in your investments. The Financial Planning Association (www.fpanet.org) and the National Association of Personal Financial Advisors (www.napfa.org) have locator services on their Web sites that can help you identify a list of planners nearby. "

FSFP Turns 3

This week marked the third anniversary of Five Seasons Financial Planning.

In conjunction with that event, I am happy to announce that I am now officially a CFP® professional.

Five Seasons Financial Planning 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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