



David W. Demming
Certified Financial Planner™

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DEMMING FINANCIAL SERVICES CORP.

13 New Hudson Road
Aurora, Ohio 44202

Tel: 330 • 562-2122

Toll Free: 877 • 841-2122

Fax: 330 • 562-6086

Email: info@demmingfinancial.com

www.demmingfinancial.com

Client Newsletter

Past market performance is not indicative of future results

Financial Advisor vs. Financial Planner

What is the difference between a broker and an investment adviser? How about a financial adviser and a financial planner? Many people use these terms interchangeably, yet in reality there are distinct differences. The distinctions are important because these financial professionals have different responsibilities under various federal regulations.

An investment adviser gives advice to others about what securities to buy and sell. A broker executes trades for clients. Also Brokers are held to a different standard than registered investment advisers. Investment advisers must abide by the rules of the Investment Act of 1940 which legally obligates them to act solely in the best interests of their clients and are held to a fiduciary standard of care. Brokers, meanwhile, are regulated by FINRA, which imposes a "suitability standard" rather than the stricter fiduciary standard. This simply means an investment sold by a broker must be suitable for the client.

Adding to the confusion are the interchangeable titles used by financial firms. Brokers may be referred to as a *registered representative* or *stockbroker*. Investment advisers may hold themselves out as *financial planners*. The term "*financial adviser*" often is used both by broker-dealers and investment advisers.

Financial Adviser is a generic term that is most commonly used by both brokers and investment advisers. Financial professionals holding themselves out as financial advisers are not held to a fiduciary standard of care unless they are an investment adviser.

A **fiduciary** is a person who has established a relationship of trust and confidence in managing the assets for the benefit of another person rather than for his or her own profit and who is expected to act in the best interest of the client.

A **financial planner** is also a generic term; however, some financial planners have credentials like **CERTIFIED FINANCIAL PLANNER™**, a designation received from the Certified Financial Planner Board of Standards upon completion of their certification program. The program involves a pre-requisite of three years' experience in the profession plus a curricula of study in five comprehensive areas, culminating in a ten-hour exam similar to the CPA exam. To keep this designation, 30 credit hours of continuing education must be completed every two years, which must include an ethics course. A CFP® is held to a higher professional standard and has a fiduciary responsibility to his clients.

An **investment advisor** must be registered with either the state or the Securities & Exchange Commission. It is not a professional designation; it's a registration. By registering as an investment advisor, the individual or firm accepts fiduciary responsibility.

Demming Financial Services Corp. is a full-service financial planning firm and an independently registered investment advisor. We have three registered investment advisor reps, two of whom have obtained CFP® certification, who are committed to the fiduciary standard of conduct in serving our clients' best interests while fulfilling regulatory requirements.

Now that the tax deadline has passed, remember to send us a copy of your federal and state tax returns, W-2s, and 401(k) statements.

An All-Weather Strategy to Real Estate Investing

It's wise to take cautious steps when strolling back into the investment property market that was so overheated just a couple of years ago. A good first step is consulting with a tax professional or a CERTIFIED FINANCIAL PLANNER™, who can help you assess your financial situation before you begin. Getting your own financial house in order first is critical.

Remember that real estate investment is part of an overall financial plan. Investing in real estate requires specific tax, spending, budgeting and people management advice. Based on your other assets and your overall financial plan, investment property might be a worthy goal, but only if it fits your investment strategy and if you're willing to put the time and effort into creating a successful business.

Don't spend until you study: If you don't have an intimate knowledge of neighborhoods, rental rates, commercial traffic or any of a dozen more factors that make real estate investments a particular success in one community and not in others, don't even start. The most successful people in real estate investment have taken the time to learn about the properties they're buying, sensible ways to borrow and economical ways to manage the buildings they have. Make sure you assemble a good advisory team around you starting with your financial planner, your tax adviser, and an attorney knowledgeable about real estate transactions. They'll teach you and keep you from making serious mistakes.

A slower market doesn't mean a bargain market. Even though the gains of the past 15 years aren't what they used to be, keep in mind many sellers aren't terribly desperate to sell and they're not dropping their prices all that much. Make sure you take the time to study a particular market not only for gains in price, but for stability in rent and overall quality of the property and neighborhood you're examining. You might hear of a downtrodden neighborhood ready to 'turn,' but that might take years.

Home ownership is not real estate investment. If you're thinking about leapfrogging from one residence to a new one in hopes of huge gains when the market returns, give yourself a reality check. An investment is something you can sell when the moment is right without any hesitation. Is that something you can really do with a home you've grown comfortable in? When the market goes up or down, we don't necessarily think of dumping our principal residence. There are emotional ties as well as physical ties to a home – whereas real estate bought as an investment must produce income during ownership or a profit at the time of sale without exception.

Real estate is not an automatic ticket out of financial trouble. Some people have gambled their way out of debt by buying distressed properties and reselling them at a profit. They're the lucky ones – and after hearing so much about the "flipping" phenomenon, many of those success stories might be apocryphal. Be aware of your risk tolerance at all times.

Enter the foreclosure market carefully. With all the reports of subprime borrowers losing their homes in recent months, don't think those foreclosure numbers will automatically provide you with a can't-miss opportunity in real estate. Taking advantage of the foreclosure market is both a learning exercise and an emotional one. It takes time to learn all the correct avenues in a community toward investing successfully in failed properties, and actual contact with families losing their homes can be wrenching even if you do know what you're doing. Foreclosure and pre-foreclosure investing is not for the faint-hearted.

Cash is king. During the white-hot real estate market, people were buying and selling property for little or no money down because lenders were willing to take that risk. Today, in a higher rate environment, that's definitely changed. While many successful real estate investors choreograph borrowing seamlessly into their strategy, cash is an important decision for down payments and covering ongoing expenses. This is where your advisory team comes in.

Keep your credit report clean: Only borrowers with the highest credit scores will find the best lending deals if they need to borrow. Make sure your credit report is clean before you enter the market.

Dear Clients:

The first quarter of 2008 ended with the U.S. economy either in or near recession, with the stock market having its worst performance in almost six years. Capital markets, both domestic and international, have weakened considerably from the highs that occurred at the end of the third quarter of 2007. The Federal Reserve has progressively dropped interest rates to a range that appears to be retracing the 50-year historic lows that we saw in the last recession of 2000-2002. Aside from the much-publicized mortgage and housing meltdown, corporate earnings appear to be weakening also, which could portend a full recession. We believe this economic downturn began about 5-6 months ago, which by historic standards would appear to be approximately half the normal duration of 10-12 months.

There is always optimism for those who have cash flow or investable assets. With the growth phase slowing, many value investors are coming out of their long slumber, the most noteworthy being Warren Buffet who had \$45 billion in cash at the beginning of the year and is now making purchases – for which he had previously been criticized for not being aggressive enough.

Each market cycle has a spring, a summer, a fall, and a winter. We are still in the winter phase, but the good news is that with each passing day we get closer to spring.

Sincerely,

David W. Demming, CFP™