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Client Newsletter

Past market performance is not indicative of future results

How to Get 2010 Off to a Great Financial Start

Plenty of people make resolutions to lose weight, get a new job or make other things happen in their personal life, but relatively few make solid resolutions about money. Make 2010 the year you'll live a better life financially. Here are a few resolutions to think about:

Write down the things you really want in life: Have you ever written down the big things you want in life? Granted, all great dreams don't cost money, but many of them do. Money buys freedom – to travel, to retire early, to start a business, to change careers. Putting goals in writing gives them a formality and a starting point for the planning you must do.

Evaluate your risk tolerance: One of the most beneficial things financial planners do is help you articulate your financial goals and establish (or re-establish) your tolerance for risk. With the recent recession and market turbulence, many individuals would benefit from an analysis of how much risk they want (or need) to take based on what they want to achieve with their money.

Track your spending: If you haven't purchased financial accounting software or set up a reliable accounting method of your own, this is the year to do it. Diligent expense tracking is the first critical step to getting personal finances in order whether you do it on paper or on your computer. Mint.com or QuickenOnline.com are free online programs that help you do this.

Get tax and planning advice toward retirement, other goals: Maybe you've always winged it with your taxes and considered your company 401(k) the ticket to your financial future. Chances are your planning is inadequate. Start getting references on good tax professionals and consider sitting down with a CERTIFIED FINANCIAL PLANNER™ professional to discuss your whole financial picture.

Cut your debt: If you can't ever seem to get yourself completely out of credit card debt, make this the year to do it. Take inventory of your balances, figure out if you can consolidate them under your lowest-rate card, and resolve to pay off an amount that

exceeds the minimum -- on time, every month. And if you can pay extra toward mortgage, auto, student or other borrowings, do so.

Start saving -- or save more: If you haven't signed up for your employer's 401(k) plan or begun a savings plan tailored for the self-employed, this is the year. And resolve to save at least 5-10 percent of your take-home pay based on your cash flow, and place the maximum amount in your retirement plans and savings.

Invest in yourself: If going back to college or taking specific coursework will help you advance in your career, plan to do it. If investing in a health club membership that you actually use makes sense for your health as well as your insurance costs, do it. Keep in mind that bettering yourself is always a good investment.

Redefine the way you shop: If you're an impulse shopper, break the habit in 2010. As a suggestion, get a legal pad and make that your centralized shopping list – use a single page for groceries, stock-up goods (it's wise to start buying essentials in bulk if you can measure the savings), essential clothing or big expenditures you'll need to make at specific times. Taking that pad with you wherever you spend money is a good way to keep a grip on your wallet as long as you don't stray from the list.

Change the way you commute: If driving is the single best option to getting to work or other destinations, it's tough to make that switch. But if you have the option to leave the car in the garage at least one day a week and walk, bike, carpool or take public transportation instead, try it. You'll save money on gas, maintenance, insurance and parking costs, you'll benefit the environment and in the case of walking or biking, the exercise may do you good.

Cut unnecessary expenses: Do you really need deluxe cable? How much are you paying for your Internet service? Can you wear a sweater around the house and lower the thermostat? In every budget, there are items that can be cut – or at least trimmed. Take a hard look at all your "essentials" to see how essential they really are. Aim for a target of at least 10 percent and start setting that money aside on a regular basis.

What's Your Money Personality?

All investors are not created equal. That's why financial planners start their first client meetings with a discussion of money attitudes, goals and risk tolerance – the driver at the root of all investment decisions. Some planners do this by general conversation, others by detailed surveys they ask their clients to fill out.

The survey route can be a more valuable tool because it forces clients to face their money issues, perhaps for the first time. Despite the difficulty in facing up to such key issues, individuals get a better idea of where their money strengths and weaknesses really lie. Often, the real difficulties lie in how money is spent.

Are there particular money types? Deborah L. Price, a member of the Financial Planning Association and founder and CEO of the Money Coaching Institute, offers these scenarios in an article titled, "What's Your Money Personality?".

The Innocent: Price notes that innocents often live in denial, are

easily overwhelmed by financial information and rely heavily on the advice and opinions of others. They tend to be the most trusting because they generally don't see people or situations clearly – which leaves them open to bad decisions at best and fraud at worst.

The Victim: She notes that victims are people who tend to live in the past and blame their woes on outside factors and situations they claim they can't control. These people may have been abused, betrayed, or have suffered some great financial loss, but they generally see life as a self-fulfilling prophecy that they can't change.

The Warrior: Generally seen as a successful person in the business and financial worlds, they will listen to advisors, but they make their own decisions. They tend to be great caretakers.

The Martyr: These people generally put other people before their own financial health. They use their money to rescue others based on their high

expectations for themselves and the people they're rescuing, but these decisions may be costly in the long run.

The Fool: The Fool is a combination of the Innocent and the Warrior because they have no clue about what they're doing, but they'll act fearlessly. They are financially adventurous, and they act on impulse.

The Creator/Artist: These people often have a love/hate relationship with money. They're constantly struggling to make their finances work, but they often feel that caring about money means something bad.

The Tyrant: This type hoards money and uses it to manipulate others. They may have everything they need, but they're never comfortable with their lives because they fear losing control.

The Magician: This is the ideal money type. They're aware of their circumstances and responsibilities and can see situations very clearly.

THE TAXMAN COMETH . . .

April 15th is the deadline for contributing to 2009 Roth IRAs. Funding limit is \$5,000 per person per year; for those age 50 and older, the limit increases to \$6,000.



Reminder!

Send us a copy of your 2009 tax returns, all W-2s, and 401k statements.

Ways to Afford Your Retirement Account Catch-Up Contributions

Turning 50 might not be everyone's idea of excitement, but when it comes to saving for retirement, 50 is when things start getting a lot more interesting.

That's because people age 50 and over can make what are known as "catch-up" contributions to IRAs and most workplace-based retirement plans. These special contributions are in addition to regular contribution limits and allow individuals to maximize the amount of tax-advantaged retirement savings they can stash away.

The catch-up phenomenon has never been more important as American workers attempt to rebuild retirement savings devastated by recent market losses. Taxpayers 50 or older are permitted to make additional contributions beyond standard limits. For calendar year 2010, here are the standard contribution limits with their catch-up amount:

1. Traditional and Roth IRAs have a standard contribution limit of \$5,000 with an over-50 catch-up contribution of \$1,000 for a total contribution limit of \$6,000.
2. SIMPLE IRAs have a standard contribution limit of \$11,500 with an over-50 catch-up contribution of \$2,500 for a total contribution limit of \$14,000.
3. 401(k), 403(b), 457(b), Roth 401(k) and Roth 403(b) plans have a standard contribution limit of \$16,500 with a catch-up contribution of \$5,500 for a total contribution limit of \$22,000.

So, where to find the money? Here are some suggestions to

make it happen:

Earn more: Yes, a tall order in a tough economy. But if you can take on extra freelance work or a part-time job that you enjoy, you can work to extinguish debt and maximize your savings.

Cut out the extras: Either on paper or on the computer, write down every dollar you spend in the average week (and cut off credit card use during that week). At the end of that week, start marking out non-essential items just to see how much you could live without. Start with gourmet coffee and restaurant or carryout meals and work backward from there. And don't forget those regular monthly expenditures that can really add up. Do you really need premium cable? Can you surrender your landline in favor of a cell phone that's matched to the exact number of minutes you'll need? Can you afford a higher deductible on your health, home or auto insurance to save on premiums?

Set a budget: Once you've established how your income covers the essential expenses you must plan for and a few inexpensive treats that should stay in, build a budget that includes specific amounts you can allocate toward debt. Going forward, keep a running total of your spending and revisit how that budget is working on a monthly basis until you start to see some positive results, and then you can review the performance of that budget a little less frequently.

If you can do it safely, take over home and auto maintenance yourself: The do-it-yourself movement is in a new phase with the economic

downturn. For any home or auto maintenance chores you may have during the year, learn as much as you can about those tasks and estimate the cost of materials and your time before doing them yourself. Previous generations made do-it-yourself a necessity. See if that option is right for you and you might save considerable money doing it. Also, for bigger jobs, pair up with friends and family and you can help each other save money.

Turn down the thermostat and park the car: Don't underestimate the value of energy savings in your budget. Keep the temperature down at home and opt for public transit, biking and walking where you need to go. And if you're going to walk or bike, that's not only going to save your money, it'll do wonders for your health.

Go debit: Debit cards wearing a bankcard logo are typically welcome at most stores where credit cards are accepted. This way, you pay cash without carrying cash. If you don't have such a card, you can probably get one from your bank to replace your traditional ATM card, but remember to tell them to limit your buying power on the card to only what you have in your account. And use overdraft protection to avoid fees.

Buy used for yourself: If you need clothing, a car or a new watch to replace the old one that's past fixing, it might be worthwhile to buy second-hand at shops or on the Internet. Plenty of people have unloaded items in relatively good shape to bring in cash during the recent downturn. Get in the habit of saving money on everything

Dear Clients:

As the first quarter of 2010 ends, there appears to be a split persona when assessing the economic outlook. The economy is recovering slowly, with corporate earnings bouncing from their lows; however, unemployment remains elevated. Valuations in the aggregate appear reasonable as market levels plateau following the very robust performance the capital markets demonstrated in the second half of 2009. Earnings need to progress, and as they do, valuations should correspondingly continue to recover. Spring is in the air.

On the negative side, our political system appears to be broken. The uncertainty surrounding major policy changes from financial and health reform to other systemic changes remains to be fulfilled. This uncertainty provides significant risk to financial markets and the broader economy. Government policy drives action in the economy, but with a lack of clarity on these policy changes, the economy remains indecisive and stagnant.

What's interesting is interest rates are at historic lows, yet the average investor in America continues to pursue areas of non-reward such as interest rate sensitive bonds that have no place to go but down as interest rates go up. The only questions are how fast rates will go up and what sectors will be more negatively maligned.

As we look back over the years, we can see that diversification does work. However, as the world gets more intertwined, one has to consciously eschew over-priced assets. The recent bear market was more pronounced and broad based due to a credit bubble which elevated prices of the vast majority of asset classes. This became unsustainable and corrected abruptly.

When an asset category becomes popular (and overvalued), that is usually not the time to follow the mob because the mob is usually wrong. More often than not, it is the opposite that is attractive. To quote Warren Buffett: "Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance. It's been an ideal period for investors. Big opportunities come infrequently. When it's raining gold, reach for a bucket, not a thimble."

Best wishes,

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