



Toledo
Community
Foundation

Inspiring and Connecting Thoughtful Giving

"Giving" Advice

Toledo Community
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About Your Foundation

Since 1973, the Toledo Community Foundation has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, Toledo Community Foundation helps donors transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

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Ten Ways to Boost Your Savings Balance

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You're a target reader for this guide if you have \$1 million in stocks and bonds (like a few million Americans) or will get there before retiring (perhaps tens of millions of Americans). If you are in either of these groups, this short guidebook could easily make you \$10,000 better off. There's a decent chance it will do a whole lot more than that for you.

The strategy: save on taxes and expenses. It has a much bigger probability of success than putting \$10,000 into a hot stock and waiting for it to double.

The Ten Grand goal is in fact very modest. For someone who can hit \$1 million in assets before retiring, it means adding 1% to cumulative returns. You're there if you shrink your annual tax and overhead cost by a tenth of a percentage point. Very doable.

1 Get Cheaper Funds

Average annual cost of actively managed U.S. stock funds: 1.3% of assets. Cost of a passive index fund tracking the S&P 500: 0.1%.

Some performance-oriented funds beat the hell out of the index, more than earning back their fees. Some do a lot worse, meaning you get hosed twice. On average, they earn a market return--before costs, that is.

Buy an expensive fund only if you can persuade yourself that there is something unusually brilliant about the way the fund is run or the people running it. The mere fact that the fund beat the market in the past should carry little weight in your thinking; chance plays a big role in fund returns.

2 Book Losses

You probably know the drill: Take your losses, let your winners ride. So you already know that capital losses can absorb any amount of capital gains plus up to \$3,000 a year of other income and that unused losses can be carried forward indefinitely.

So what's stopping you? The psychological hardship of admitting a mistake? Get over it. The wash-sale rule? There's an answer for that problem, too.

The wash-sale rule says that you can't book a tax loss on a security if you buy the same security in the 30 days before or after selling the loser. Staying on the sidelines for a month may make you anxious. What if the stock pops back up while you're out? Then your tax move turns a temporary loss into a permanent one, and you can't stand the thought of that.

There are two ways to handle this anxiety. One is to buy a stock or fund vaguely similar to the one you're selling for the loss. Sell ConocoPhillips at a loss, and hold ExxonMobil while waiting out the 31 days.

The other approach is to play the law of averages. Take a dozen tax losses at different times during the year. Chances are you'll end up kicking yourself over a rebound half of the time. The other half of the time you'll end up buying the same security back at a lower price.

3 Give Away Winners

If you are sitting on a long-term gain, give shares in a company or a fund to your low-bracket child for college tuition. Keep the gift under \$13,000 (\$26,000 for a couple) to avoid eating into your lifetime gift/estate tax exclusion. Making donations to charities using appreciated stock is another nice tax dodge.

4 Make Stocks Taxable

Stocks are for the long haul, as theorists like Jeremy Siegel tell us. Your 401(k) is also for long-term investments. So stocks should go in your tax-deferred account? No.

When you put stocks in your tax-sheltered account, you get the benefit of delaying taxes, but you pay a price: You convert low-taxed capital gains into highly taxed ordinary income. The smarter course of action is to do most of your stock investing in your taxable account and save the tax shelter for things that pay a lot of ordinary income: corporate bonds, real estate investment trusts and Ginnie Maes.

When stocks are in your taxable account, you can harvest losses (see tip 2 above). As for winners, you can either give them away (see tip 3) or else sit on them forever.

5 Carve Up Index Funds

Instead of owning a diversified international index fund, own the European and Asian portfolios separately. That way, if just one of the two elements turns into a loser, you can temporarily unload it for the tax deduction. Vanguard also makes it easy to carve up its Total Stock Market index fund into pieces.

Someone with only \$10,000 might do well to put it all into a balanced index fund. Someone with \$1 million really ought to keep stocks and bonds separate (see tip 4). So-called target date retirement funds, offering a changing mix of stocks and bonds, are dumb just for that reason; many have the additional sin of being high in cost.

6 Use UGMA

Section 529 plans, whose earnings are tax exempt if used for college, are good buys if you get a state income tax break for contributions (New Yorkers, for example, can deduct up to \$5,000). But don't overdo the 529. What if Junior ends up at a cheap state school instead of your costly alma mater? Getting at the excess savings will entail a penalty.

Another option, for families that definitely won't qualify for financial aid, is a taxable account under the Uniform Gift to Minors Act. The first \$1,900 of a child's investment income is taxed at the kid's low rate. Take advantage of this by putting \$30,000 in the account and investing in a taxable bond fund. College savings beyond the 529 and the UGMA should consist of stocks or muni bonds held in your own name.

7 Sell Bonds

Say you bought a \$100,000 treasury when the interest rate was 5% and now, with four years to run until the bond matures, the going yield is down to 3%. In round numbers, this bond is going to be worth \$108,000 on the open market. You could sit tight and collect the high coupon until the note matures. It would be smarter to sell the bond and buy a new one paying only 3%. In that case you wind up replacing \$20,000 of interest to be collected over four years with an immediate \$8,000 capital gain followed by only \$12,000 of interest (again, in round numbers).

Converting interest into a capital gain gets you a lower tax rate. Moreover, if you lost money in the recent crash you have plenty of tax losses to soak up. In that case your \$8,000 cap gain becomes effectively tax exempt.

The game works with corporate bonds, too.

8 Drain Your Money Market

Why do Americans have \$1.5 trillion in money funds yielding, at the moment, somewhere around 0% interest? Indecision is one of the reasons--we're waiting for just the right moment to plunge into long-term assets. Another is confusion about what liquidity means. Liquidity is the ability to raise cash in a hurry. You can get it without cowering in yield-free Treasury bills.

Take a chance. Move your cash into an intermediate-term Treasury fund yielding more like 2%. Yes, the fund's share value could be down when you go to cash it in. It could just as easily be up. This is a risk worth taking.

9 Get Cheap Hedges

Want to hedge against a market dip? There's a ProShares etf that has a short position in the S&P 500, touted recently in the Wall Street Journal. But it costs 0.9% of assets annually. A cheaper way to get the same effect is to sell some of the stocks and stock funds you already own. Sell the ones worth less than what you paid for them.

Same logic applies to dollar hedges. No need to pay an etf vendor to bet against the dollar for you. You can get that service for free by buying the right kind of international fund. Just get one that chooses not to hedge away its own foreign-currency exposure.

10 Buy Direct

Why pay a management fee to own U.S. Treasuries in your long-term portfolios? Submit noncompetitive tenders at Treasury auctions. A \$50 broker's fee for the paperwork on a \$50,000 chunk of ten-year notes costs you a minuscule 1 basis point (0.01% annually).

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