

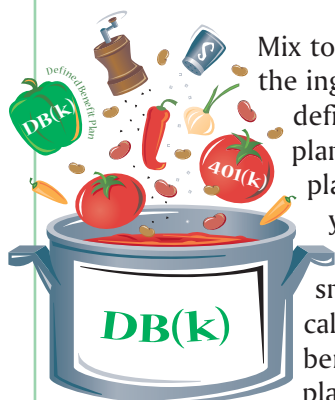
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## MONEY AT WORK

### Introducing the new DB(k) plan



Mix together some of the ingredients of a defined benefit plan with a 401(k) plan and what do you get? A new concoction for small businesses called the defined benefit 401(k) plan—or DB(k),

for short. This hybrid plan, which was authorized by the Pension Protection Act of 2006, is finally making its debut in 2010.

**Background:** Defined benefit plans, like traditional pension plans, have declined in popularity among business owners in recent years, primarily because the plans are completely funded by the employer. Annual contributions based on actuarial computations involving years of service and salary are set aside for employees. For 2010,

*(see New DB(k) plan on inside page)*

### Don't make these seven investment mistakes

If you should know anything about the stock market, it's this: It can be volatile and subject to dramatic changes. Over the last few years, we have seen bull markets, bear markets and periods in between.

Of course, there are no guarantees how a particular investment will perform in any given year. Nevertheless, you can maximize your chances for success and minimize the inherent risks by avoiding some common mistakes. Here are seven errors to avoid:

**1 Acting too quickly:** If you are too eager to jump on the bandwagon—no matter which direction it is heading—you could end up losing money. Take time to carefully analyze your investment decisions, and then act accordingly.

**2 Acting too slowly:** At the other end of the spectrum, you might “miss the boat” if you take too long to put your plans

into action. This could result in missed opportunities for gains and chances to reduce or avoid losses. Once you have reached a well-reasoned decision, try to stick with it.

*(see Investment mistakes on back page)*



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# Five ways to manage money better

Have you had trouble managing your money during the economic downturn? You are not alone. Here are five suggestions to avoiding further financial difficulties:



**1 Cut down on debt.** It's easy to fall into the trap of using plastic to pay for discretionary expenses. But this can quickly mushroom into a financial catastrophe if you don't rein in your spending habits. Do your best to keep credit card purchases within reason while you chip away at the debt. You may want to consolidate debts into a single monthly charge if you can obtain a relatively low rate. **Note:** Personal interest expenses are generally not tax-deductible.

**2 Put yourself on a strict budget.** This means figuring out how much you spend on a monthly basis and how you can reduce your cash outlays. Perhaps you might decide to forego a few nights out at expensive restaurants or pass up that extra latte every morning. Obviously, this requires great discipline on your part, but you will notice positive results over time. To help pinpoint saving opportunities, try tracking your budget on a spreadsheet.

**3 Protect yourself against inflation.** Even though inflation has not been much of a factor lately, some economic commentators believe that it could quickly return. They point to the billions in bailout funds and a proposed federal budget of \$3.6 trillion (up from \$3.1 trillion the previous year). Also, short-term interest rates remain relatively low. These factors could be the kindling that sparks a rapid hike in inflation. For protection, refine your investment portfolio to include inflation hedges.

**4 Develop a sound stock market strategy.** Many investors have been sitting on the sidelines since the stock market tumbled in 2008. But that's not necessarily the best

thing to do. Consider building a diversified portfolio that takes into account both the inherent risks of the market and the potential rewards for smart investments. Of course, your time horizon is a critical factor in these decisions. If you are near retirement or have already retired, you should generally adopt a conservative stance, while younger individuals may be more aggressive.

**5 Keep more of what you have.** Learn your lessons from recent economic developments. You can't rely on bull markets and escalating home prices to provide security for the future. Be aware that the value of assets typically rises and falls over time. Build yourself an emergency cushion to see yourself through tough times.

Financial experts usually advise individuals to maintain cash reserves that can last for six months in the event of a job loss. If that's beyond your means, do what you can. ♦

## Introducing the new DB(k) plan

*(continued from front page)*

the contributions cannot fund an annual retirement benefit exceeding \$195,000 (the same limit as 2009).

Conversely, 401(k) plans have gained in popularity, as employers seek to shift some of the funding burden to employees. For 2010, an employee can elect to defer up to \$16,500 of salary to his or her account (plus an extra \$5,500 if age 50 or older). The employer may provide matching contributions up to a specified limit.

Both plans must meet nondiscrimination requirements to avoid favoring highly compensated employees (HCEs), but the testing rules for 401(k) plans are especially tough. Several safe-harbor rules have been implemented to ease some of the burden. In addition, the plan may feature automatic enrollment to encourage a higher participation level by non-HCEs.

**New entree:** Now certain aspects of the plans are combined in the

# Why you should name a guardian

What happens if you die without naming a legal guardian for minor children? The state will choose one for you. This could create some problems for the rest of the family. For instance,

- ▶ The person picked by the state might not be your first choice. As a result, your children could be raised differently from your expectations.
- ▶ Your family may be drawn into a legal battle over the custody of the children.



- ▶ The cost of the court proceedings can cut into your estate.
- ▶ When a child reaches the legal age of majority in the state, he or she will receive the money in a lump sum—whether the child is ready to handle it or not.

If possible, choose someone whose values and childrearing ideas are similar to your own. Of course, there are numerous other factors to consider, such as financial experience, age, existing relationship with your children, willingness to assume the responsibility, etc.

What happens if your guardian dies, becomes incapacitated or wants to give up the job? You are essentially back where you started. For that reason, it is important that your will designate contingent guardians in case your first choice is no longer able to fulfill the duties. In addition, you can devise a letter (or video) with detailed instruc-



tions on how you want your children raised. For instance, this letter can spell out your views on religion, education and other issues. However, be aware that the letter or video is not legally binding.

Assuming that you intend to eventually bequeath property to your children, you may want to utilize other estate-planning techniques besides a will. For example, you may have named your spouse as the primary beneficiary of your life insurance policies and retirement plans, with your children as the contingent beneficiaries. If you and your spouse both die, the proceeds will be distributed to the children in the manner directed by state law.

**One alternative:** To avoid adverse complications, you can name a trust as the beneficiary of the property instead. The trustee you appoint will manage the assets for your children, according to your specific directions. As a result, you can determine when the funds are distributed to the children. Similarly, a life insurance trust is often used to shield life insurance proceeds from estate tax. For smaller estates, you might consider a custodianship established under the state law for transfers or gifts to minors.

There are several other estate-planning options to consider, so be sure to seek professional assistance in this area. ♦

DB(k). Starting in 2010, it is available to employers with at least two employees and no more than 500 employees.

The DB(k) typically combines a defined benefit plan based on final average pay with a safe-harbor 401(k). The plan must provide a defined benefit equal to 1% of the final average pay times years of service up to a maximum of 20% of final pay.

The 401(k) part of the plan requires automatic enrollment with an employee deferral equal to 4% of compensation. Matching contributions for HCEs cannot exceed the rate for

non-HCEs. The basic matching contribution is equal to 50% on a maximum of 4% of compensation. Employees are immediately vested in their 401(k) accounts.

If these requirements are met, your company has to file just one document for the plan. Also, the IRS will require only one annual report. And you do not have to endure the strenuous testing procedures for 401(k)s.

It is expected that the DB(k) will appeal to professional corporations and partnerships, like medical and legal practices, as well as other small-business operations. ♦

## Don't make these seven investment mistakes *(continued from front page)*



**3 Lacking investment focus:** If you take a scatter-shot approach to investing, at some point you'll start missing your target

or run out of ammunition. You have a better chance of succeeding (although there are no guarantees) if you develop a comprehensive plan designed to meet your objectives.

**4 Failing to diversify:** It's trite but true—don't put all of your eggs into one basket. By spreading out your money among different types of investments and in varying degrees, you reduce the

risk of a financial catastrophe. (Once again, however, there are no guarantees with any particular investment or allocation of funds.)

**5 Not allocating assets:** Your portfolio may be too heavily weighted toward one type of investment classification or not weighted enough toward another. Make sure that your allocation of assets matches your investment objectives.

**6 Underestimating future needs:** Don't assume that you will need substantially less income to live on in retirement. Instead, do a quick analysis of the income you expect to be receiv-

ing and the expenses you will be paying. You may find that you need to reset your goals.

**7 Failing to adjust your portfolio:** No matter how carefully you have analyzed your investment choices, changing economic conditions and other new developments will require you to review your portfolio on a periodic basis. You can't simply leave things as they are without making some adjustments.

Finally, one of the worst mistakes you can make is to try to do everything yourself. When it is appropriate, don't hesitate to seek expert advice. ♦

### Ring in a Roth IRA Conversion

Many retirement savers will do some extra celebrating this New Year's Day. Reason: They are finally able to convert a traditional IRA into a Roth IRA.

Previously, Roth IRA conversions were only allowed in a year in which your adjusted gross income (AGI) did not exceed \$100,000. However, effective January 1, 2010, the \$100,000-of-AGI barrier is removed. So now, high-income IRA owners are eligible for conversions.

To add to the merriment, if you convert to a Roth IRA in 2010, the resulting tax liability can be spread out over the following two years—2011 and 2012.