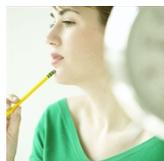




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Making Financial Resolutions? Look Back at Last Year



Each new year brings the chance for a fresh start, and the opportunity to improve your financial picture. As you make financial resolutions for 2012, looking back at what happened last year can help you make some positive changes this year.

Automate your retirement savings

In 2011: The economic slowdown took its toll on retirement savings.

In 2012: While the economy--and its impact on financial markets--may be out of your hands, you can still look for ways to increase your retirement savings. First, determine whether you're leaving any money on the table. If you participate in an employer-sponsored retirement plan such as a 401(k) or a 403(b), contribute the maximum amount you can--particularly if your employer matches some or all of your contributions.

Contributing to an employer-sponsored retirement plan can help you save more consistently. Because your contributions are deducted automatically from your salary each pay period, you won't be tempted to skip one now and then. And this year, why not resolve to steadily increase your retirement contributions? Your employer may allow you to sign up for automatic contribution increases based on a certain schedule or triggering event (e.g., annually or whenever your pay increases).

If you're self-employed or contributing to a traditional or Roth IRA on your own, you can still automate your contributions by having money sent directly from a savings or checking account to your retirement account.

Plan ahead for a cash crunch

In 2011: According to the Federal Reserve, use of consumer credit rose in 2011 after falling for two straight years.

In 2012: If you've reigned in your spending but are still burdened by debt (especially credit card debt), your lack of emergency savings may be partly to blame. For example, even if you pay much more than your monthly minimum credit card payment, you'll be caught in an endless

cycle of debt unless you can avoid using your credit card for new expenses. Resolve to have at least three to six months of your living expenses set aside in a liquid account such as a savings or money market account so that you have cash on hand to pay for unexpected expenses (e.g., costly car or home repairs, large medical bills) instead of racking up new credit card debt and interest charges.

Review your investments

In 2011: Market volatility was the norm.

In 2012: You can't control the market, but you can control your response to market volatility. Is your asset allocation still in line with your investment goals, time horizon, and risk tolerance? Is it time to rebalance your allocation in light of changing market conditions and/or your changing needs? Are you taking appropriate advantage of available investment products or offerings? Reviewing your portfolio periodically can help you stay on track.

Check your insurance coverage

In 2011: Floods, hurricanes, tornadoes, earthquakes, and wildfires were widespread.

In 2012: The federal government issued more disaster declarations in 2011 than in any other year on record, serving as a reminder that it's important to review your property and casualty coverage to make sure you're adequately protected. Is there coverage you really should have (e.g., personal umbrella liability, renters insurance, or flood protection), but don't?

Update your estate plan

In 2011: New estate and gift tax laws took effect.

In 2012: Your estate plan should be reviewed in light of the changes made last year to estate and gift tax laws. Certain life events, such as changes in employment, family circumstances (marriages, divorces, births, illness or incapacity, and deaths), or even the valuation of your estate, may also affect your estate plan.

January 1, 2012

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Debt Payoff Strategies

The Problem with Do-It-Yourself Estate Planning

Are hobby expenses deductible?



Debt Payoff Strategies



Certain debt payoff strategies can reduce the time payments must be made and the total interest paid. Before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including any penalties for prepayment.

In these uncertain economic times, you may be thinking of reducing your debt load. There are a number of strategies for paying off debt that you might consider. However, before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including any penalties for prepayment.

Minimum payments

You are generally required to make minimum payments on your debts, based on factors set by the lender. Failure to make the minimum payments can result in penalties, increased interest rates, and default. If you make only the minimum payments, it may take a long time to pay off the debt, and you may have to pay large amounts of interest over the life of the loan. This is especially true of credit card debt.

Your credit card statement will indicate the amount of your current monthly minimum payment. To find the minimum payment factors, you will need to review terms in your credit card contract. These terms can change over time.

For credit cards, the minimum payment is usually equal to the greater of a minimum percentage multiplied by the card's balance (plus interest on the balance, in some cases) or some minimal amount (such as \$15). For example, assume you have a credit card with a current balance of \$2,000, an interest rate of 18%, a minimum percentage of 2% plus interest, and a minimum amount of \$15. The initial minimum payment required would be \$70 [greater of $(\$2,000 \times 2\%) + (\$2,000 \times (18\% / 12))$ or \$15]. If you made only the minimum payment each month, it would take you 114 months to pay off the debt, and you would pay total interest of \$1,314.

For other types of loans, the minimum payment is generally the same as the regular monthly payment.

Make additional payments

Making payments in addition to your regular payments or the minimum payments can reduce the time payments must be made and the total interest paid. The additional payments could be made periodically, such as monthly, quarterly, or annually.

For example, if you made monthly payments of \$100 on the credit card debt above (the initial minimum payment was \$70), it would take you only 24 months to pay off the debt, and you would pay total interest of just \$396.

As another example, let's assume you have a current debt on which you owe \$100,000, the interest rate is 7.125%, the monthly payment is

\$898, and you have a remaining term of 15 years and 3 months. If you make regular payments, you will pay total interest of \$62,247. However, if you pay an additional \$200 each month, it will take you only 11 years to pay off the debt, and you will pay total interest of just \$44,364.

Another strategy is to pay one-half of your regular monthly mortgage payment every two weeks. By the end of the year, you will have made 26 payments of one-half the monthly amount, or essentially 13 monthly payments. In other words, you will have made an extra monthly payment for the year. Furthermore, payments are made earlier than required, thus reducing the total interest you will have to pay.

Pay off highest interest rate debts first

One way to potentially optimize payment of your debt is to first make the minimum payments required for each debt, and then allocate any remaining dollars to the debts with the highest interest rates.

For example, let's assume you have two debts, you owe \$10,000 on each, and each has a monthly payment of \$200. The interest rate for one debt is 8%; the interest rate for the other is 18%. If you make regular payments, it will take you 94 months until both debts are paid off, and you will pay total interest of \$10,827. However, if you make monthly payments of \$600, with the extra \$200 paying off the debt with an 18% interest rate first, it will take you only 41 months to pay off the debts, and you will pay total interest of just \$4,457.

Get a debt consolidation loan

If you have multiple debts with high interest rates, it may be possible to pay off those debts by getting a debt consolidation loan. This type of loan will typically be a home equity loan. Therefore, the interest rate on it will often be much lower than the interest rates on the debts being consolidated. Furthermore, if you itemize deductions, interest paid on home equity debt of up to \$100,000 is generally deductible for income tax purposes, thus reducing the effective interest rate on the debt consolidation loan even further. However, a home equity loan potentially puts your home at risk because it serves as collateral, and the lender could foreclose if you fail to repay. There also may be closing costs and other charges associated with the loan.

Note: All examples are hypothetical and for illustrative purposes only.





The one-size-fits-all fill-in-the-blank forms that do-it-yourself estate planning sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk and potentially high cost of doing things incorrectly?



The Problem with Do-It-Yourself Estate Planning

As the number of Internet websites and software packages have quickly multiplied, along with the many books and stationery store kits that have always been available, do-it-yourself (DIY) estate planning is on the rise. The one-size-fits-all fill-in-the-blank forms that these sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk and potentially high cost of doing things incorrectly?

Cheap, easy, and better than nothing?

Proponents of DIY estate planning typically have two arguments:

1. It's cheap and easy: A will, for instance, can be completed online in about 15 minutes for about \$69. In comparison, working with an experienced attorney to create common estate planning documents (wills, trusts, health-care directives, and powers of attorney) may cost you anywhere from \$800 to \$3,000 or more, depending on the complexity of your estate.
2. It's better than nothing: The consequences of dying without estate planning documents are that the state will make important decisions for you, such as how your property will be distributed, who will care for your minor children, and what medical care you'll receive if you are unable to make your wishes known.

These points are valid; for those who cannot afford to pay an attorney, DIY may be the only economical alternative available. For others, a poorly drafted will is better than no will at all, especially where the naming of a guardian for minor children is involved. But the chances that DIY estate planning will effectively accomplish exactly what you intend is slim. Here's why.

It's too easy to make mistakes

DIY sources typically only handle simple estates, and can't deal with even the most common complexities such as children from a prior marriage, children with special needs, property that has appreciated in value resulting in capital gains, or estates that are large enough to be subject to estate taxes. And, DIY sources generally fail altogether to take advantage of sophisticated estate planning strategies because they typically can't account for an individual's unique circumstances.

Further, you may make an error by failing to understand the instructions or by following the instructions incorrectly.

The result is that the documents you create could be invalid, ineffective, or contain legal language having consequences you never intended. You might not know if that is the case during your lifetime, but at your death your loved ones will find out and may suffer the lasting consequences of your mistakes.

You're not getting legal advice

DIY sources provide forms but not legal advice. In fact, these sources clearly state that they are not a substitute for an attorney, and that they are prohibited from providing any kind of legal advice.

Estate planning involves a lot more than producing documents. It's impossible to know, without a legal education and years of experience, what the right legal solution is to your particular situation and what planning opportunities are available. The actual documents produced are simply tools to put into effect a plan that should be specifically tailored to your circumstances and goals.

Estate planning laws change

Laws are not static. They constantly change because of new case law and legislation, especially when it comes to estate taxes. Attorneys keep up with these changes. DIY websites, makers of software, and other sources may not do as good a job at keeping current and up-to-date.

Fixing mistakes can be costly

As previously stated, estate planning documents can be obtained from a lawyer for \$800 to \$3,000 or more, depending on the complexity of your estate. But these costs are minor in comparison to the costs that your loved ones may incur if there are serious errors in your DIY estate planning. Many more thousands of dollars may have to be spent by your loved ones to undo what was done wrong.

The bottom line

There are obvious savings in legal fees by using form wills and trusts, but there are also risks involved. One of them is that problems such as defective forms, violations of state law, or improper witnessing will not be apparent to you when the documents are signed. It may be only after death occurs many years later when the problems are discovered, and at that point it may be very costly, or even worse, too late to revise the documents.



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Are hobby expenses deductible?

So, you have a hobby that you enjoy. Lately, you have been viewing the hobby as a possible source of income. Of course, you will have to report

that income on your income tax return. But can you deduct your hobby expenses?

If your activity qualifies as a business, you are able to deduct qualified business expenses, even if they exceed income from your business. However, there is a hobby loss rule designed to limit the deduction of losses when an activity is not carried on to make a profit. (The rule does not apply to C corporations.)

Whether you carry on an activity to make a profit is determined by all relevant facts and circumstances. However, your activity will be presumed carried on for profit if it produces a profit in at least three of the last five years (two out of seven for certain activities involving horses). The IRS can rebut this presumption.

When you first start out, it may be difficult to show a profit. You can elect to have the three out of five years (or two out of seven years) presumption made after you have the five (or seven) years of experience allowed by the test. You do this by filing Form 5213 (generally,

within three years of the due date--determined without extensions--for filing your income tax return for the first year of the activity). Filing the form delays the IRS determination of whether your activity was carried on for a profit. It also extends the period of limitations for possible denial of hobby loss deductions until two years after the end of the five- (or seven-) year period.

If your activity is not carried on for profit, deductions from the activity are limited:

1. You can take any deductions that would be allowable for personal purposes, such as real estate taxes or home mortgage interest.
2. Deductions that do not result in an adjustment to basis can be taken, limited to the excess of income from the activity over deductions in (1).
3. Deductions that result in an adjustment to basis (for example, depreciation) can be taken, limited to the excess of income from the activity over deductions in (1) and (2).

Deductions claimed under (2) or (3) are miscellaneous deductions, which are allowable only to the extent all such deductions exceed 2% of your adjusted gross income.



Are business start-up costs deductible?

Generally, costs that you incur prior to the time that you actually begin operating a business are treated as capital expenditures, which are part of

your basis in the business. However, certain start-up expenditures may be deducted, either in the first year of business or over time (amortized).

Such start-up costs must be incurred before the business begins operation and be ones that otherwise would be deductible as a normal business expense. Certain syndication costs of marketing or selling interests in a new business cannot be deducted, and must be capitalized.

You may elect to deduct your business start-up costs. If you make the election, you may deduct up to \$5,000 of start-up costs in the taxable year in which you actively start the business. The \$5,000 amount is reduced (but not below zero) to the extent that start-up costs for the business exceed \$50,000. Thus, no first-year deduction is available if start-up costs exceed \$55,000. The remainder of the start-up costs are amortized over a period of 180 months. If you do not elect to deduct your start-up costs, you must capitalize them.

You deduct amortized start-up costs in equal amounts over a period of 180 months. You take the total start-up costs, reduced by the amount you deduct in the year you start the business, and divide that amount by the 180 months in the amortization period. This figure is the amount deductible each month. If the business is terminated before the end of the 180-month amortization period, you may be able to deduct as a business loss any remaining start-up costs that have not been previously deducted.

Example: You incur \$52,000 of costs starting up your business before it begins operation and elect to deduct start-up costs. In the year your business actively starts, you can deduct \$3,000 of start-up costs [$\$5,000 - (\$52,000 - \$50,000)$]. You can also deduct the remaining \$49,000 ratably over 180 months, or \$272.22 a month for 180 months; your deduction for a year with 12 months of amortization would be \$3,266.67.

Tip: You are deemed to have elected to deduct eligible start-up expenses unless you affirmatively elect to capitalize the expenses on a timely filed federal income tax return.

