



# Pathways

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## Five Ideas for Staying Sane in a Crazy Market

A key part of managing your money is managing your emotions, particularly when the stock market is going through a period of uncertainty. Being able to keep your cool is one of the most valuable skills you can have as an investor.

### Stay on course by continuing to save



Even if the value of your holdings fluctuates, regularly adding to an account that's designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part by new savings, the bottom-line number on your statement might not be quite so discouraging.

If you're using dollar-cost averaging—investing a specific amount regularly regardless of fluctuating price levels—you may be getting a bargain by buying when prices are down. However, dollar-cost averaging can't guarantee a profit or protect against a loss, and you should consider your financial ability to continue purchases through periods of low price levels.

### Stick with your game plan

Solid asset allocation is the basis of sound investing. One of the reasons a diversified portfolio is so important is that strong performance of some investments may help offset poor performance by others. Even with an appropriate asset allocation, some parts of a portfolio may struggle at any given time. Diversification can't guarantee a profit or protect against a loss, but it can help you balance risks.

### Look in the rear-view mirror

If you're investing long term, sometimes it helps to take a look back and see how far you've come. If your portfolio is down this year, it can be easy to forget any progress you may already have made over the years.

Think about why you made a specific investment in the first place. That can help you determine if it still deserves a place in your investing strategy. Understanding how a specific holding fits in your portfolio also can help you consider whether a lower price might actually represent a buying opportunity. If you don't know an investment's purpose in your overall strategy, now's the time to find out.

### Remember that everything's relative

Most of the variance in the returns of different portfolios is generally attributable to their asset allocations. If you've got a well-diversified portfolio, it could be useful to compare its overall performance to relevant benchmarks. If you find that your investments are at least matching those benchmarks, that realization might help you feel better about your overall strategy.

### Remind yourself that nothing lasts forever

Ups and downs are normal for the stock market. If you regret not selling at a market peak, or missed a bargain, remember that you're likely to have other opportunities at some point. Having predetermined guidelines for buying and selling can prevent emotion from dictating investment decisions.

**Being able to keep your cool is one of the most valuable skills you can have as an investor.**

**About New Wealth Advisors.**

New Wealth Advisors is an independent, fee-only, SEC-registered investment advisor, operating as a multi-family investment office. We work with newly wealthy individuals and families to protect, grow and manage assets.

# Where to Stash Your Emergency Cash

A financial cushion can improve your ability to withstand bad times, but right now that cash may be earning a relatively low interest rate. However, try to think of it as you might insurance: your emergency fund is designed to be there when you need it. Here are some possibilities that balance safety with liquidity:

**Multiple choices:** Many experts suggest having 3 to 6 months' income in your emergency fund. When planning how much to have and where to keep it, consider all your potential emergency resources, such as a health savings account, insurance, an emergency only credit card, or a home equity line of credit. You may also be able to combine options - for example, an interest-bearing checking account that replaces a credit card for minor emergencies, plus a higher-yielding account for the rest of your emergency cash.



If you're contemplating putting your cash into a mutual fund, be sure to obtain and read its prospectus (available from the fund) so you can carefully consider its investment objectives, risks, charges, and expenses before investing.

## Interest-bearing checking accounts

Deposit accounts are federally insured up to \$100,000, so they're as secure as it gets. Bank deposit balances are insured by the Federal Deposit Insurance Corporation (FDIC); credit union balances are insured by the National Credit Union Administration. Lower costs often permit higher yields on online accounts, and minimum balances for online accounts also are typically low. However, depending on the institution, your access with an online-only account may be somewhat less convenient than you're used to; for example, the number of deposits or check-writing privileges may be limited. An ATM/debit card linked to a checking account is convenient, but if the temptation to use it for a "retail emergency" proves too great, it could end up pulling the stuffing right out of your financial cushion.

## High-yield savings accounts

Savings accounts typically offer higher interest rates than checking accounts. Again, some of the best rates may be available online. However, make sure you find out whether the yield quoted is an introductory rate and what minimum balance is required to get it. Also, some high-yield savings accounts require that a certain number of purchases be made using a linked credit or debit card—hardly appropriate for an emergencies-only fund.

## Money market savings accounts

A money market savings account (MMA) may offer higher interest than a checking or even a regular savings account, but also

may have some restrictions on access; for example, it may limit the number of transfers, withdrawals, or checks, and may require a higher minimum initial deposit or balance. (On the other hand, such constraints may force you to think twice before accessing that money without good cause.) MMAs generally invest in short term commercial loans, CDs, and government securities.

## Money market mutual funds

Money market mutual funds may offer higher rates than checking or savings accounts. Even though they may invest in similar types of securities as money market savings accounts, don't confuse the two. An investment in a money market mutual fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the fund. If you're in a high tax bracket, consider municipal money market funds, which offer the federal tax advantages of muni bonds. A fund that concentrates on munis from your state also may offer state tax benefits.

## Laddered cash equivalents

Certificates of deposit (CDs) or short-term Treasury bills provide less liquidity, but a laddering approach could improve your access while still limiting to some extent your ability to raid your fund without a good reason. For example, you might buy six CDs; the first CD matures in one month, the second in two months, the third in three months and so on up to six months. When the first CD matures, you could buy another six-month CD; you'd do the same with each succeeding CD at maturity. That would make some cash available once a month, and laddering lets you adapt to changing interest rates. A similar strategy could be used with short-term T-bills, available in maturities of 4, 13, 26, and 52 weeks. However, be aware that if you need to sell or cash in a CD early, you may have to pay a substantial penalty that could wipe out any incremental yield. In the case of a brokered CD sold before maturity, you also might suffer a loss. Also, interest rates could affect the value of a T-bill sold before it matures.

## Short-term bond funds

Sometimes used as an alternative to a money market fund, short-term bond funds have typically offered higher yields with relatively modest increased risk (though they also are not FDIC-insured). However, recent credit market conditions have underscored their hazards. Short-term bond funds may be more stable than long-term funds, but some investors have been surprised at losses resulting from their fund's exposure during the past year's credit turmoil to investments considered relatively safe.

Whatever you use for your cash stash, have a plan for replenishing it after the emergency has passed.



# Buying a Home in Foreclosure

They're not all in run-down neighborhoods, and they're not all in complete disrepair. As the housing market's woes continue, more homes go into foreclosure, and more real estate investment opportunities open up. While a buyer still has to prepare and beware, it may be possible to purchase a property in foreclosure at a discount off its market value.

Foreclosure is a legal process whereby a lender terminates a borrower's right to redeem a property, generally because the borrower has defaulted on the mortgage.

Once the foreclosure process is complete, the lender can sell the property to repay the mortgage. If you're considering buying a foreclosed property, keep in mind that there are many pitfalls to watch out for, and laws vary from state to state. You'll want to work with an experienced real estate attorney.

## The three stages of foreclosure

Depending on state law, foreclosure can be a relatively short or lengthy process. You might be able to buy a property in pre-foreclosure, at a foreclosure auction, or (if it didn't sell at auction) in the real estate owned (REO) phase.

### Pre-foreclosures

In order to identify properties that are in a preforeclosure status, you'll need to locate loans that are in default. To do this, you may need to spend time in the courthouse researching foreclosure filings or subscribe to an online foreclosure reporting service that will do this for you. Once you find a property you're interested in, you'll need a title search performed to determine what liens are against the property, and you'll need to contact the owner to negotiate a purchase. You'll also need to have the property inspected (it may need some repair work) and then determine its market value. In making an offer on the property, consider the cost of paying off liens, repairing the property, and any other fees you'll need to pay (such as those associated with securing financing to make the purchase).

This option requires a lot of legwork on your part and (preferably) the services of others experienced in the process. Contacting an owner (especially one who hasn't listed the property for sale) can be difficult and stressful. However, pre-foreclosure sales may require minimum down payments, and you may be able to acquire a property at a good discount off its market value.

### Auction sales

Once the foreclosure process is complete, the foreclosing lender (usually the holder of the first mortgage) may attempt to sell the property at auction—a fast-moving, public proceeding. Before you buy, you should have the title researched just as you would when making a pre-foreclosure offer. However, you generally won't be allowed to have the property inspected beforehand (which precludes the possibility of obtaining a mortgage to purchase it), so you'll be buying it "as is" and may not know all of what that entails. If you're the successful bidder, you'll need to make at least the required minimum down

payment in cash (or with a certified check) on the spot and pay or finance the balance within 30 days, sometimes sooner.

Because you can't first inspect the property and arrange financing, and because you must buy it "as is," buying a property at auction can be very risky. However, you can receive a substantial discount off the market value of a property when it's bought at auction.

## Real estate owned (REO) properties

If a foreclosed property doesn't sell at auction, the foreclosing lender takes possession of it. As a result, junior liens (such as second mortgages or home equity lines of credit) that may have encumbered the property's title are discharged, and any taxes owed are paid. Any occupants remaining in the property are evicted, and the property is usually listed with a real estate agent.

At that point, the property becomes available for inspection. You may be buying an REO "as is," but you'll be able to find out what that means, and can adjust your purchase offer accordingly. While the lender holding the REO will try to get as much as possible for the property, it may consider discounts off market value in order to get the property off its books.

Purchasing an REO is probably the least risky way to buy a foreclosed property. You have time to arrange financing, and you may be able to obtain some discount off the property's market value. However, the discount off market value will generally not be as substantial as with the other options for buying foreclosed property, and working with the bank can be a lengthy process.

As the housing market's woes continue, more homes go into foreclosure, and more real estate investment opportunities open up.

## ASK THE EXPERTS

### Should my child apply to college early decision?

In the college early decision process, your child applies early to a particular college (typically in November of senior year), and hears back early (usually by December or January) as to whether he or she has been accepted.

For the student who has his or her heart set on a particular college that's also a good fit, applying for admission early decision can be a favorable way to get a leg up on the competition. It's also a good way to try to avoid the anxiety that typically comes with having to wait until spring for an acceptance letter. A student who gets accepted early may better enjoy his or her senior year, since there'll





be more time for hobbies, courses, work, or activities that he or she might not otherwise have the time or inclination to pursue.

However, there's a catch: an early decision application is a binding contract. If the college accepts your child (and offers an adequate financial aid package), your child must agree to attend that college. Consequently, a student can apply to only one college early decision.

There are two situations where applying early decision may not work in a student's favor. First, if a student needs senior year grades or extracurricular activities to boost his or her chances of admission, early decision will preclude consideration of these items. Second, if a student wants or needs to compare financial aid packages from several schools, early decision is not the route to go. Not only will the student have just one financial aid package to review, but the package may not be as generous as it would be for a traditional applicant. Why? Because the college knows that it's the student's first choice—in effect, the student has shown his or her cards.

Keep in mind that if your child does apply to one college early decision, he or she can still apply to other colleges through the regular admissions process as a backup—those applications are typically due by December or January.

## What's the difference between early decision and early action?

If you and your child think the early decision process is too limiting, one alternative might be for your child to apply to college under an early action plan.

Early action plans are similar to early decision plans, but are less restrictive. First, a student can apply to more than one college early action. Second, if a student is accepted under an early action application, he or she can either commit to the college immediately or wait until the spring to do so.

Early action thus offers a huge advantage over early decision—your child gains the peace of mind that comes with early acceptance (and may even have several early acceptances by December or January), but can take a wait-and-see approach to making a commitment to any one school. This gives you and your child the opportunity to review the financial aid packages that come in from all the colleges your child has been accepted at, both under the early action process and the regular admissions process.

Not all colleges offer early action (or early decision) applications, however. In fact, in recent years, a handful of highly selective colleges have dropped their early action and/or early decision programs, believing that the process favors affluent students who are less likely to rely on financial aid. For a list of colleges that offer early action or early decision programs, visit [www.collegeboard.com](http://www.collegeboard.com).

Considering the flexibility of early action plans, why would a student apply early decision? The answer is commitment—colleges likely consider the early decision applicant more committed, since he or she is bound to attend if accepted.

Students who apply either early action or early decision will need to have all applications and teacher recommendations completed by October or November of senior year.

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