R. S. Davis Financial Group
Newsletter

Our company adopted a policy of sending newsletters to our clients keeping them abreast of all the changes, updates, and information in the services R S Davis Financial Group offers.

-Richard S. Davis, Jr.

- Real Estate: Sell this house, Please!?!?
- Tax: The “Alternative Minimum Tax” doesn’t give a real alternative to taxation
- Financial Planning: Demystifying a C.D. and when it is best to purchase one
- Mortgage: How to **ARM** myself from economic problems

Sell this house, please!?!?

Do you feel like an “inflated” real estate market bubble has burst, making you cringe at the arduous process to “Sell this House?” Today we’re highlighting a T.V. show of the same name that is informative and helpful in fixing your house for resale. Often sellers are offended when truthfully told about minor home renovations that improve the ability to sell. This show has valuable and basic actions that affordably prepare your house for sale. On this reality based show hidden cameras are placed throughout the house to catch the reactions and comments by prospective buyers. The information is then used as notes to fix and ready the house to be sold.

Due to local cable and satellite channel listings I am unable to share the channel number that most pertains to your viewing. Check out the show this weekend if you’re selling now or soon this will help on ideas of improving your home. You can even watch the show to learn affordable decorating ideas.

SELL THIS HOUSE

Airing Saturday 11:30
Running 30 minutes
On the A&E Network

The “Alternative Minimum Tax” doesn’t give a real alternative to taxation

Forbes magazine issues a list of the “400 richest Americans” each year. For the first time in the compilations history it only includes individuals with an estimated net worth over one billion dollars. To give you perspective, the list was inaugurated in 1982 where there were “only” 12 billionaires, while 10 of the 12 would barely make the list for today’s 400 of the wealthiest Americans because being a billionaire is now a minimum prerequisite. This raises two issues: 1) there is a growing divide between the “Haves” and “Have Nots,” and 2) there is the ever pending and resounding issue in all civilizations that one cannot escape: INFLATION.

The Alternative Minimum Tax (AMT) has mounting pressure from taxpayers for not adjusting to inflation. AMT was introduced in the *Tax Reform Act of 1969* with the intention for targeting high income taxpayers who are subject to many exemptions. However, without inflation adjustments AMT is extending its reach to lower income levels of the upper middle class. For Example, in 2000 2-3% of taxpayers were paying AMT while in 2005 it was up to 15% as per *The Treasury Department* estimates.

By 2010 1 in 5 citizens will absorb the AMT if no changes are made. How do we make policy changes? Simply put, by voting and understanding the issues you're voting on. Of course you can always pay for AMT when its real intent was to tax the extreme wealthy (i.e. the 400 billionaires.) However, the option to pay when you shouldn't is not a popular alternative that taxpayer's would choose. If you're paying more for bread than you did in 1969 when the act was introduced then the AMT needs to adjust for the inescapable fact of inflation.

Demystifying a C.D. and when is it best to purchase one
(and by C.D. I mean a Certificate of Deposit not a Compact Disk)

A C.D. is basically lending the bank a specific amount of money for an allotted period of time (up to five years.) The purchaser will receive a pre disclosed amount of interest along with the principal sum loaned. I will paint a picture best using a C.D. by a factious example and then give facts, pros and cons allowing you to draw your own conclusion. If your child is entering college within a few months and you want to earn more money than a savings account while retaining the ability to safely invest then the decision is green lighted. However, if planning for your kid's college funding five years prior then the answer is "no" because a riskier investment with a higher return is advisable.

Factors Affecting Interest

- Bank: Each bank may have different rates of interest return. People often use the bank housing their savings, however, the convenience doesn't automatically equate to more money. In short, you must shop around for the best rate.
- The Prevailing Interest Environment: Sometimes interest rates are high and other times their lower but they always depend on the current economic state.
- The quantity invested: A premium is allowed for larger amounts reimbursing for added risk.
- The length until maturity: The longer your money is locked in a C.D. banks add additional premiums adjusting for the time.
- APY (Annual Percentage Yield): The total amount of interest earned in a year. For example, if you earn 1% interest per month then you will gain 12% for the year.
- APR (Annual Percentage Rate): the interest rate earned in a year.

Pro

- Safe investment.
- FDIC insures up to 100,000k.
- Brokerages' may insure up 500,000k.
- Free of market volatility and the amount earned is predetermined.
- Earnings are more than a savings account.

Con

- Small return on investment.
- Locks money for a long time.
- Penalty assigned for early removal.
- Money Market Funds also have low rates but allow early withdrawal.

How to ARM myself from economic problems

Although adjustable rate mortgages (ARMs) have been in vogue for the past several years, there is now a growing chorus of naysayers that are awaiting a huge default by those with ARM mortgages. The reason many feel that ARM mortgages are posing an economic threat is that ARM's have adjustable interest rates that kick in after a fixed interest rate period. The naysayers argue that the rate increases are causing increased mortgage payments that leave borrowers unable to pay and thus default on their mortgage payments. A typical ARM, for example, would be a 5/1 ARM, which is a mortgage loan that has a five-year fixed interest rate and a variable rate that adjusts annually each year beginning on the sixth year anniversary of the loan. It is true that some borrowers may have been qualified to purchase mortgages based on low ARM rates that did not properly take into account the future affordability of the mortgage to the borrower after the rate adjusted higher.

However, overall mortgage rates have not increased significantly and home prices have not decreased enough for us to side with those who use ARM's to spell out poor economic performance in the housing and mortgage markets. And with mortgage rates continuing to be low and many different mortgage products available, those who are suffering from ARM related shock can easily find a way to refinance their debt.

All in all, we will probably see a slowdown from the robust past few years, but it should not be as bad as some say. Housing will undergo a correction as builders sell off existing inventory without building new homes, waiting to start new homes once this existing inventory is sold. Further, if any recession talk actually comes true it will most likely feel like that landing that we all have experienced at the airport runway that sounds and feels like a bad thing at first, but ends up being nothing big at all. The great part is that the current economy presents opportunities to you as investors and homebuyers. We suspect that those who jumped into real estate will jump back out and those who know real estate will adjust and continue business as usual.