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# FINANCIAL OUTLOOK

WINTER 2010

## GROWING YOUR 401(K) PLAN

Your 401(k) plan's ultimate size is primarily a function of two factors — how much you contribute and how much you earn on those contributions. Of course, you know you should contribute the maximum amount possible (\$16,500 in 2009 and 2010 plus a \$5,500 catch-up contribution for individuals over

age 50, if permitted by the plan). But what steps should you take to maximize your returns? Consider these tips:

○ **TAKE ADVANTAGE OF EMPLOYER-MATCHING CONTRIBUTIONS.** Contribute at least enough to take full advantage of any matching contributions. You simply lose the

money if you don't use it. A 50% match on your contributions is the equivalent of earning 50% on your money in the first year. If you plan to contribute the maximum and your employer matches contributions, have the \$16,500 taken out of your pay uniformly throughout the year. Most employers match your contributions as they are made, so you could forego some matching if you reach the limit before yearend.

○ **SELECT YOUR INVESTMENT ALTERNATIVES CAREFULLY.** Since you are responsible for investment decisions, understand all alternatives and review all available information before making choices. Keep in mind the long-term nature of your retirement goal and select investments for that time period. For most participants, despite the substantial declines in the stock market over the past couple of years, that may mean that a significant portion of their portfolio may be invested in the growth potential of stocks.

○ **REBALANCE PERIODICALLY.** Although a rebalancing strategy does not assure a profit or protect against loss, numerous studies have found that rebalancing reduces portfolio volatility, often with increased returns. By rebalancing, you

## IMPROVING YOUR CREDIT SCORE

As lenders have clamped down on issuing credit, your credit score now has a more significant impact on loans available to you, the interest rate and fees you'll pay, and other terms of the loan. Thus, it is more important than ever to understand your credit score and how you can improve it.

When lenders evaluate a credit application, they usually request both your credit report and your credit score, which is a mathematical calculation based on the information on your credit report. The score is intended to rate your credit risk, although other factors, such as your income, length of employment, and years in your home, are also considered.

Credit scores are often referred to as FICO scores, since they are produced from software developed by Fair, Isaac and Company (FICO). While all of the major credit reporting agencies use FICO scores, your

score from each agency can differ because information on your credit report differs by agency. Your FICO score is used in more than 75% of mortgage lending decisions and by 90% of the largest lenders (Source: MSN Money, December 29, 2008).

FICO scores range from 300 to 850, with higher scores indicating lower levels of credit risk. The major factors affecting your FICO score include:

○ **HOW YOU PAY YOUR BILLS** — A significant portion of your FICO score is based on how you pay your bills. How consistently do you make your payments on time? If you've paid bills late, how many times were you late? How late were you? How much money did you owe? Have you ever had a debt in collection? What was the size of the debt? Have you ever filed for bankruptcy?

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## YOUR 401(K)

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are following a fundamental investment principle — you are buying low (those investments that are underperforming) and selling high (those investments that are performing well). Keep in mind that you set your asset allocation strategy because you believed those were the appropriate percentages of various investments that you should own. Thus, you need to make rebalancing a habit so your portfolio doesn't become more risky than intended. Since your 401(k) plan is tax deferred, there are no tax ramifications to buying and selling within the account.

- **LIMIT THE AMOUNT OF COMPANY STOCK OWNED.** Purchasing too much company stock is risky. Not only is your job and livelihood tied to the company, but your retirement savings are also tied to that same company. It is generally recommended that any one stock not comprise more than 5% to 10% of your portfolio's value. If you own company stock in your 401(k) plan, look at how much of your total balance it represents. Take steps to immediately reduce that percentage if it is over 10% of your total portfolio.
- **DON'T BORROW FROM YOUR 401(K) PLAN.** While it may be comforting to know you can gain access to your 401(k) fund when needed, only borrow as a last resort. It's true that you are borrowing from yourself and will pay interest to yourself, but there are also hidden costs to this borrowing. When



## PAYING OFF YOUR MORTGAGE BEFORE RETIREMENT

**A** recent study found that 41% of homeowners between the ages of 60 and 69 still have a mortgage on their home. Of those, 51% had sufficient assets to repay their mortgage (Source: Center for Retirement Research, July 2009). The study found that most households would be better off paying their mortgage off, since the cost of the mortgage is higher than their investment earnings. But is that good advice for your situation?

Before making this decision, be sure to consider these factors:

- **COMPARE YOUR MORTGAGE INTEREST RATE TO THE RATE YOU ARE EARNING ON YOUR INVESTMENTS.** If you retain your mortgage because you believe you will earn more on your investment assets, make sure that is really happening. When paying off a mortgage, you are effectively earning a pretax return equal to your mortgage interest rate, which is a guaranteed return with no risk.
- **CONSIDER THE TAX BENEFITS OF THE MORTGAGE INTEREST.** Interest paid on mortgages with balances of up to \$1,000,000 and on home-equity loans up to \$100,000 is deductible on your federal tax return, provided you itemize deductions. You only benefit if your total itemized deductions exceed the standard deduction amount, which in 2009 is \$11,400 for married couples filing jointly and \$5,700 for single taxpayers. According to the IRS, approximately two out of three taxpayers use the standard deductions.
- **PAY OFF CONSUMER DEBT FIRST.** Consumer debt typically carries higher interest rates than mortgage rates, and interest payments are not typically tax deductible, unless it's a home-equity loan. Thus, you should probably pay off your consumer debt in full before paying down your mortgage.
- **CONSIDER WHICH FUNDS YOU WOULD USE TO PAY OFF THE MORTGAGE.** If you are planning to use tax-deferred monies, such as those in a traditional IRA or 401(k) plan, to pay off your mortgage, those withdrawals could be subject to income taxes, which will impact your decision to pay off the mortgage. Financially, it is typically better to use taxable accounts to pay off your mortgage.
- **RETAIN SOME SAVINGS.** You don't want to use so much of your investment assets to pay off your mortgage that you have difficulty paying for unexpected expenditures.

Please call if you would like help deciding whether you should pay your mortgage off before retirement. ○○○

you borrow, some of your investments are sold. While your loan is outstanding, you miss out on any capital gains or other income those investments would have earned. Interest rates are typically very reasonable with 401(k) loans, often prime rate or a couple of points over prime. That makes it easier to pay back the funds but could mean your 401(k) account is earning lower returns than if it was invested in other alternatives.

Also, if you leave the company while a loan is outstanding, you must repay the entire balance within a short period of time or the loan will be considered a distribution, subject to income taxes and the 10% early withdrawal penalty if you are under age 59 1/2 (55 if you are retiring).

Please call if you'd like help with decisions involving your 401(k) plan. ○○○

## YOUR CREDIT SCORE

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- **YOUR TOTAL OUTSTANDING DEBT** — Outstanding debt is debt of all kinds, including mortgages, car loans, credit cards, home-equity lines of credit, and any other loans that are reported to a credit agency. Another important factor here is how much unused but available credit you have on your credit cards. The absolute amount of available credit you have is less important than how close you are to maxing out the credit you've been granted. The highest scores go to people who use credit sparingly and keep balances low. Ideally, you should use no more than 30% of your available limit, with 10% being even better.
- **LENGTH OF YOUR CREDIT HISTORY** — The longer you've had and used credit, the higher your score. You get even more points if you have established long-term credit with the same lenders — a reason why you might not want to close long-term credit cards, even if you don't use them very much.
- **MIX OF CREDIT TYPES** — Your score is higher if you have a variety of fixed-payment loans and revolving credit.
- **RECENT APPLICATIONS FOR CREDIT** — A number of applications for credit over a short period of time raises a red flag for lenders, as it is often a sign that a person is in a cash flow crunch. The FICO formula takes points away for this. Multiple applications for a specific type of credit in a concentrated time frame — when you're rate shopping for a mortgage, for example — won't count against your credit score.

Typically, scores of 720 and above receive the best deals on interest rates. Based on the way the FICO

## WHEN ADULT CHILDREN RETURN HOME

Once your child has graduated from college, don't assume that your financial responsibilities are over. Adult children return home to live for a variety of reasons — they can't find a job, they have too much debt to afford living alone, or they have divorced and need financial support. Use the situation to help reinforce basic financial concepts:

- **SET A TIME FRAME.** Don't let your child move in for an open-ended time period. Financial goals should be set and followed, so your child is working toward financial independence and living on his/her own.
- **CHARGE RENT.** There are increased costs when your child

returns home — additional food, phone bills, utilities, etc. Although you don't have to charge a market rental rate, you should charge something. If you're uncomfortable taking money from your child, put the rent money aside in a separate account and use it to help your child when he/she moves out. Also decide which chores your child is expected to perform.

- **PUT YOUR AGREEMENT IN WRITING.** While putting everything in writing may seem too businesslike, it gives you an opportunity to clearly spell out your expectations and the rules of the house. This can prevent future misunderstandings. ○○○

score is calculated, there are strategies to improve your score if you're not at that level:

- **REVIEW YOUR CREDIT REPORT.** Your FICO score is based on your credit report, so you should get copies of your report from each of the three main reporting agencies and make sure there are no errors. You are entitled to one free report every year from each of the agencies. Your information can vary by agency, so don't just look at one. Contact the agency if you find any mistakes.
- **MAKE SURE ALL YOUR BILLS ARE PAID ON TIME.** Check your credit report to see if there are any late notices. If so and you have a good credit rating, ask the lender to remove the notice.
- **REDUCE YOUR CREDIT UTILIZATION RATIO.** You receive a better score when your outstanding debt as a percentage of your available debt is lower. Make sure your credit utilization never goes over 50%. If you can't pay down your debt, ask

your lender to increase your available credit. This will have the same result as paying down your debt, but make sure you aren't tempted to use that additional credit.

- **DON'T CLOSE CREDIT CARDS YOU DON'T USE.** This has the result of increasing your credit utilization ratio because you have less available debt. However, if you have too many credit cards, typically over five, close the newest ones. Too many credit cards make lenders uneasy.
- **CONSIDER AN INSTALLMENT LOAN.** FICO scores reward people who use both revolving credit accounts and installment loans. Thus, using an installment loan, such as a car loan or mortgage, can increase your score.
- **MINIMIZE REQUESTS FOR ADDITIONAL CREDIT.** Inquiries regarding additional debt appear in your credit file and hurt your credit score. ○○○

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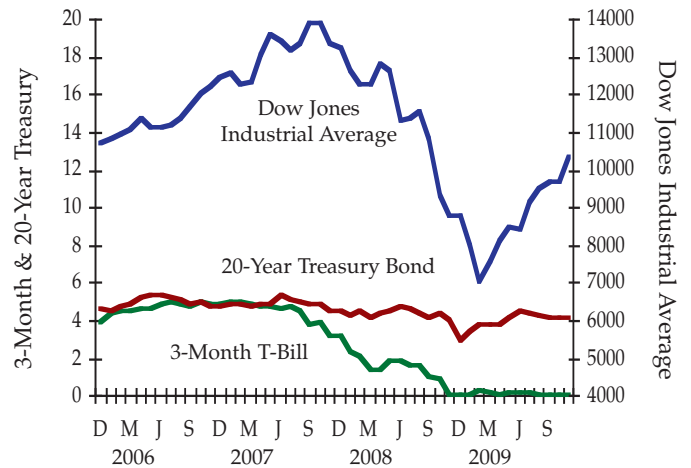
## FINANCIAL DATA

| Indicator               | Month-end |        |        |        |        |
|-------------------------|-----------|--------|--------|--------|--------|
|                         | Sep-09    | Oct-09 | Nov-09 | Dec-08 | Nov-08 |
| Prime rate              | 3.25      | 3.25   | 3.25   | 3.25   | 4.00   |
| Money market rate       | 0.04      | 0.07   | 0.07   | 1.84   | 2.33   |
| 3-month T-bill yield    | 0.10      | 0.08   | 0.06   | 0.05   | 0.15   |
| 20-year T-bond yield    | 4.19      | 4.20   | 4.19   | 3.04   | 4.14   |
| Dow Jones Corp.         | 4.38      | 4.40   | 4.21   | 7.16   | 8.12   |
| 30-year fixed mortgage  | 4.70      | 4.72   | 4.35   | 4.48   | 5.10   |
| GDP (adj. annual rate)# | -6.40     | -0.70  | +2.80  | -6.30  | -0.50  |

| Indicator              | Month-end |         |          | % Change |         |
|------------------------|-----------|---------|----------|----------|---------|
|                        | Sep-09    | Oct-09  | Nov-09   | YTD      | 12 Mon. |
| Dow Jones Industrials  | 9712.28   | 9712.73 | 10344.84 | 17.9%    | 17.2%   |
| Standard & Poor's 500  | 1057.08   | 1036.19 | 1095.63  | 21.3%    | 22.2%   |
| Nasdaq Composite       | 2122.42   | 2045.11 | 2144.60  | 36.0%    | 39.7%   |
| Gold                   | 995.75    | 1040.00 | 1175.75  | 38.9%    | 44.7%   |
| Consumer price index@  | 215.80    | 216.00  | 216.20   | 2.9%     | -0.2%   |
| Unemployment rate@     | 9.70      | 9.80    | 10.20    | 41.7%    | 56.9%   |
| Index of leading ind.@ | 102.50    | 103.50  | 103.80   | 4.7%     | 4.4%    |

# — 1st, 2nd, 3rd quarter @ — Aug, Sep, Oct Sources: *Barron's*, *Wall Street Journal*

## 4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD DECEMBER 2005 TO NOVEMBER 2009



Past performance is not a guarantee of future results.

## NEWS AND ANNOUNCEMENTS

### STAGGERED RETIREMENTS

The Center for Retirement Research indicates that only 20% of couples retire in the same year — 50% still have one spouse working two years after the other spouse has retired. Often, one spouse retires before the other due to health problems or a lay-off, not necessarily because the spouse chooses to retire early. No matter what the reason, keep these points in mind if you are in that situation:

- **TRY TO MINIMIZE WITHDRAWALS FROM RETIREMENT ACCOUNTS.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working.
- **UTILIZE ALL AVAILABLE BENEFITS FROM THE WORKING SPOUSE'S EMPLOYER.** One of the most significant retirement expenses, especially if you don't qualify for Medicare, is health insurance. So, before one spouse retires, find out if that spouse is eligible for health insurance benefits through the working spouse's employer.

- **DELAY SOCIAL SECURITY BENEFITS.** Especially if you are retiring before full retirement age, it typically makes financial sense to delay Social Security benefits. For a significant number of married couples, the man is older, has higher earnings, and will not live as long as the woman. Because the surviving spouse can elect to receive 100% of the other spouse's benefits, it typically makes sense for the man to wait until age 70 to claim Social Security benefits, to provide his wife with the highest possible benefits after his death. On the other hand, there is usually no reason for the woman to wait beyond ages 62 to 66 to start Social Security benefits.
- **CONSIDER ALL DEFINED-BENEFIT PLAN PAYMENT OPTIONS.** If you are lucky enough to be covered by a traditional pension plan at work, make sure to consider all the payment options carefully before selecting one. Typically, your choice will be irrevocable. ○○○

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