Financing Your Retirement Future

October 2008

Why Work with a Financial Professional?

If you're like most people, you probably bring your automobile to a professional mechanic for routine maintenance. You see a doctor when you have concerns about your health, and for regular exams. When the need for legal counsel arises, you consult an attorney. All of us rely on the expertise of others. It's no different when it comes to personal finances--most people could benefit from working with a financial professional. Here are some good reasons to do so:

You don't know what you don't know
No one can be an expert on every subject. Managing your finances on a day-to-day basis is one thing; implementing a comprehensive investment plan to fund your retirement while setting aside funds for your child's education is something else. That doesn't mean that you're not capable of doing it, only that you shouldn't underestimate the expertise needed to put together an effective plan. If you're going to go it alone, you'll need to educate yourself, and that brings us to the next point …

You have good intentions, but never set aside the time
There's an entire industry built around providing individuals with the tools they need to do their own financial planning. Books, magazines, websites, calculators, worksheets, and videos all empower individuals to take a more active role in their financial future, whether they're working alone or with a financial professional. Not one of these tools, however, will help unless you set aside both the time to learn to use the tool, and the time to apply the tool to your own situation. Working with a financial professional forces you to stop procrastinating, and shifts the time commitment from you to the professional.

Doing it all yourself isn't efficient
There's a long list of things that we could do ourselves but choose to pay someone else to do for us instead. For example, you could paint your house, but you may be happy to pay someone else to do it. Why? It's more efficient. You can spend the time working on other things and, if you choose the right professional, it will probably be done faster and better than if you did it yourself. The same goes for working with a financial professional.

You're not objective
It's hard to look at your own situation objectively. Having someone else with experience analyze your financial condition can be extremely helpful. And, in cases where you and your spouse aren't on the same financial page, a financial professional can listen to all concerns, identify underlying issues, and help you find common ground.

Keeping up with change is a full-time job
In the last two years, there have been at least five major pieces of tax legislation signed into law. Even seasoned financial professionals have had a difficult time keeping up with the changes. Not understanding how these changes might affect your financial plan could be dangerous, but understanding the changes takes time and effort.

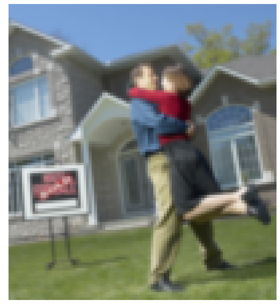
You see the trees, but not the forest
A good financial professional can help you see the big picture. He or she can show you how your financial goals are related--for example, how you might save for both your child's college education, as well as your own retirement. He or she can work with you to prioritize your goals, implement specific strategies, and choose suitable products or services. A financial professional can also stay on top of your plan to make sure it remains on track, recommending changes when conditions, or your circumstances, dictate.

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 pre-foreclosure 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.

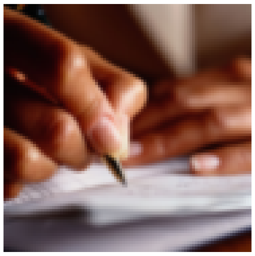


Auction sales
Once the foreclosure process is complete, the foreclosing lender (usually the holder of the first mortgage) may attempt to sell the property at auction--a fast-moving, public proceeding. Before you buy, you should have the title researched just as you would when making a pre-foreclosure 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.

Ask the Experts

Will the current credit crunch impact my child's ability to get a student loan for college?



It's hard to say whether the credit crunch will prevent students from obtaining the financing they need to pay for college. According to the College Board, last year students and their families borrowed nearly $60 billion in federal loans and $17 billion in private loans for college. In order to understand the current student lending market, some background is helpful.

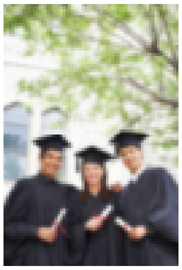
Federal student loans. Under the Federal Family Education Loan Program (FFELP), private lenders receive subsidies from the federal government to issue federal student loans at reduced interest rates. But last year, Congress slashed subsidies to FFELP lenders. This, coupled with tightening credit and near paralysis in the secondary debt markets, created the perfect storm--a student lending market in potential turmoil due to the unwillingness and/or inability of some private lenders (to date more than 50) to make, package, and sell federal student loans.

The problem was big enough to attract the attention of the federal government--legislation passed in May allows the Department of Education to buy billions of dollars in federal student loans from private lenders to keep money flowing into the widely used FFELP. The consensus is that there will be enough federal student loan money--Stafford, Perkins, and PLUS Loans--in the FFELP to go around for the 2008/09 academic year.

Private student loans. Over the past decade, the use of private student loans to finance college has soared as federal student loans fail to keep up with rising costs. This year, college students in need of private loans are expected to face higher interest rates and more stringent credit checks. Unfortunately, this means that some students who qualified for a loan last year may not this year, or they may have to pay a higher interest rate. The federal government has not proposed buying private student loans, so lenders will be on their own to raise the necessary capital.

What is a Parent PLUS Loan?

A Parent PLUS Loan is a federal student loan available to parents with good credit histories who want to help pay for their dependent child's undergraduate education. (A similar Graduate PLUS Loan is available to graduate students.) Under the program, parents can borrow up to the full cost of their child's college education each year, less any financial aid received. For example, if college costs $30,000 this year and a student receives $10,000 in financial aid, parents would potentially be eligible for a $20,000 PLUS Loan. To qualify, students must be attending an eligible school at least half time.



PLUS Loans aren't based on financial need; parents need only pass a credit check. Under new federal legislation passed in May, parents who are delinquent up to 180 days on their home mortgage or medical debt will still be considered creditworthy to borrow under the program.

The interest rate on all PLUS Loans issued on or after July 1, 2006, is capped at 8.5%. (For PLUS Loans issued before this date, the interest rate is variable, adjusted each July, and capped at 9%.)

Interest begins accruing upon the first loan disbursement, but thanks to the recent legislation, parents have the option to defer repayment of the loan for up to six months after their child leaves school. Previously, repayment was required to begin within 60 days of the last loan disbursement for that year.

PLUS Loans can be made either by private lenders who participate in the Federal Family Education Loan Program (FFELP), or directly by the federal government under the William D. Ford Federal Direct Loan Program. The federal government recently took steps to pump liquidity into the FFELP market due to turmoil in the general credit markets, so fund availability isn't expected to be a problem.

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Wayne Messmer & Associates, LLC
5550 W. Touhy Ave.
Skokie, IL 60077

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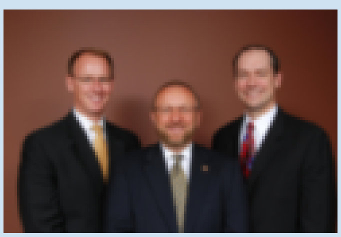

James Geake, Wayne Messmer, David Geake

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