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PERSONAL FINANCE / KATHY M. KRISTOF

Investments Due for Annual Review

Every year at this time, Mitchell Kauffman starts calling his clients, reminding them that it's time to review their savings and investment plans.

Year-end reviews can be onerous simply because they come at a tumultuous time, but they are equally necessary, according to the Pasadena-based financial planner.

By acting now, you may be able to diminish your tax liability, Kauffman notes. And you'll also get the benefit of a plethora of year-end forecasts published in newspapers and magazines that predict which investments will do best. These forecasts are not always right, of course, but they may present options worth considering.

Even if you don't do it now, you should do an annual financial checkup at some point during the year, advisers say. Why? Because life is fluid. Investments that seemed sage just a year ago may look lackluster now. And a savings plan that was reasonable in 1991 may be out of date when considering 1993.

Further, personal circumstances and market conditions may have changed in ways that can or should alter the way you invest, said Richard Wagner, president of the Institute of Certified Financial Planners in Denver.

Reviewing your savings and investment plan is a five-step process.

• First, consider whether you are saving as much as you'd planned. Some people pledge to set aside a set amount each month but fail to make the deposits. Others set aside the promised amount but build up credit card debts at the same time.

In either case, the savings plan isn't working and needs to be reconsidered. It could be that your plan was derailed by one-time expenses, such as medical bills or wedding expenses. But it's also possible that your budget simply doesn't suit your lifestyle or provide you with sufficient latitude to handle emergencies.

MICHAEL EDWARDS / Los Angeles Times

Dr. Kathleen Kornafel discusses her year-end investment options with investment planner Mitchell Kauffman in her Glendale office.

• Second, consider whether the circumstances of your life have changed. Has there been a major event, such as a death, divorce or disability?

Perhaps the child you planned to send through college eloped. Or you reaped a monthly windfall by refinancing a mortgage. If so, you should be investing some of that newly found money rather than just spending it.

On the other hand, you might have retired early or been laid off. Or, more likely still, time has simply put you a bit closer to needing the funds you've saved.

The current circumstances of your life affect your ability to tolerate risk and will determine how much of your savings should be invested in various types of assets. This should shift a bit every few years.

Generally speaking, everyone should diversify, with some assets in safe, short-term investments and others in higher-risk, long-term ventures that can presumably return more over time. But how much money you put into each type of investment will largely hinge on how much time you have before you need the money.

For short-term goals, you should take fewer risks and keep your money where you can get at it easily—bank deposits, short-term Treasuries, money market accounts, for example. Longer-term goals can be financed with growth stocks and, perhaps, international stocks and bonds, while money needed in five to seven years might be invested in mortgage-backed securities and high-quality stocks and bonds.

• Third, your tax picture must also be considered, Kauffman said.

If an increasingly big chunk of your income is going to pay state and federal taxes, it may make sense to put money in tax-favored retirement accounts, municipal bonds and residential real estate. But if you've got tax-favored investments at a time when your tax liability is declining—perhaps as the result of retirement—it's time to consider shifting money into higher-yielding taxable investments.

• Fourth, evaluate specific items in your portfolio to see how they've done. Don't necessarily sell a stock or mutual fund that's declined in value if it's likely to recover. But cut your losses when the investment isn't likely to turn around soon and you have better options elsewhere. At this time of year, also consider recognizing investment losses to offset capital gains.

• Finally, look at current market conditions. Don't get buffeted by every financial fad, but consider which investment alternatives are likely to do best given today's economic environment.

For example, you may have decided that you need to keep 30% of your money in safe, short-term investments. But because interest rates may rise in the coming year, you may opt for a money market mutual fund instead of a passbook savings account, because money market returns are more sensitive to interest rate hikes.

Meanwhile, if you've made a profit investing in international markets, consider shifting those long-term dollars into domestic investments. That's because some foreign economies are just now hitting the skids, while the United States seems to be climbing out of its economic malaise.

Investment products and services offered through Wells Fargo Advisors Financial Network, LLC (WFAFN). Mitchell Kauffman is a Certified Financial Planner and Managing Director of Kauffman Wealth Management (KWM). He serves clients from two locations: 140 South Lake Avenue, Pasadena CA 91101 and 550 Periwinkle Lane, Santa Barbara CA 93108 (by appointment only). KWM is a separate entity from WFAFN.

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