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**"Economy is a savings-bank, into which men drop pennies,  
and get dollars in return."**

—Josh Billings

Dear Friend,

July 2008

With all of the news in the media these days, one may wonder whether there is going to be enough money to go around for all of the things that we need and want to do. Increased longevity means we'll be here longer. And economic and conservation costs are frequently cyclical, but that doesn't mean that they go down – they just fluctuate differently at times.

The great news is that many of our concerns can be alleviated with proper planning. While many people are spending more than they make and failing to see the long-term benefit of saving, that doesn't mean we have to. And there are many savings options available to us.

Hopefully this month's flyer will give you some good tips on what investment choices may be best for you. IRAs, 401(k)s and participating life insurance policies are all great options for realizing long-term capital growth. On the reverse side, there is a six-step process to maximize your budget spending and free up more income for savings. With so many great options for saving, it's no wonder that all the experts agree: growing your savings is the first step to financial freedom.

And what role does your home play in this? The most important message, I think, is that our homes, while certainly an asset, are not a liquid asset. No one wants to *have* to sell their home in order to get to the funds that are 'in it,' and refinancing isn't always an option. Now I do disagree, in part, with the flyer message that says "You should never refinance your home for the purpose of making any type of investment." Yes, I agree! Refinancing your home to pull equity out of it to buy a Ferrari is not a great idea. However, there are many resources available to us now that position a reasonable amount of equity in your home as being well partnered with additional investments that our outside of our homes. In other words, rolling all of the equity from a sale into a new home may not be the best place for those dollars to really earn for us. And, certainly, if life does throw a curve, sitting on the major portion of our investments doesn't give us access to those liquid funds that can make that layoff, illness, or startup failure, manageable. As always, I have resources to provide to you should you want more information on this topic.

So what is the local market doing? As you've read in earlier months, I much prefer looking at quarterly numbers because it's a more realistic view of trends rather than point data spikes. And the short version is that all of the areas we're watching have adjusted down for the Spring Quarter year-over-year. Not at all surprising given the higher inventories and longer times to sell. But that's a 4% or less adjustment for King County, the Eastside and Seattle Metro. And a bit higher for Snohomish and Pierce Counties, but, as a reminder, their growth was exceptional in the last few years. In short, it's a great time to buy, and a great time to sell if you're buying up. It's all in the math and I'm happy to help! (Check out the actual market numbers on the website.)

Sincerely,

*Plan to be well served...if you know of someone who would appreciate the level of service I provide, please call me with their name and business number, and I'll be happy to follow up and take great care of them.*

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# Plan... For Good Things



The Average Cost of a Wedding: \$26,327

The High Cost of Higher Education



## Average Annual Cost of College Education

	Tuition	Room & Board	Total
Public	\$5,836	\$6,960	\$12,796
Private	\$22,218	\$8,149	\$30,367

College tuition increases at an average rate of 6.3% per year for public schools (5.9% for private). Although a great expense, it is also a great investment. College graduates average a much higher salary than people with only a high school diploma/GED certificate (men—69%, women—73%).

The most common methods of paying for an education are:

- Student loan: Enables the student to pay back the loan after graduation.
- Pay-as-you-go: Eliminates the obligation and added expense of repaying a loan, but generally involves a strong financial sacrifice at the time.
- Advance investment: Parents invest money in a program dedicated to college expense. It involves advance financial commitment but generally appreciates in value. IRAs may be used to pay for education without early withdrawal penalties, though taxes may still be due.

Don't overlook another method of defraying educational expense—scholarships. A surprising variety of academic, athletic and other scholarships exist, some with quite reasonable qualifications.

Last, be sure to investigate the tax deduction possibilities:

- School expenses: Up to \$4,000 per year, depending on tax bracket
- Student loans: Up to \$2,500 in interest
- Employer assistance: Employer can deduct up to \$5,250 per employee (Section 127)

[www.salliemae.com/get\\_student\\_loan/interest\\_rates\\_fees/#Global\\_health](http://www.salliemae.com/get_student_loan/interest_rates_fees/#Global_health)



Life has many roads. To make the most of your future, plan now to achieve your goals and realize your dreams.

By planning today, you have the advantage of shaping your future with well-informed decisions on what will benefit you and your family best. Planning ahead also helps prepare you for life's milestones—home remodeling, children, college, wedding, vacation home, travel. There are a number of ways to save and invest that will enable you to enjoy the big moments without affecting your retirement.

### Make Savings Automatic

Plan out your paycheck. Deposit a specific amount into your savings account or other instrument dedicated to savings. If you have difficulties with this, your bank or employer can set up a method of depositing it automatically. This is a convenient method of saving and keeps your contributions continuing on a regular basis. Even if you start with a small amount, be diligent and establish a routine. You can increase your contribution as your income grows.

### Choose the Right IRA

Individual Retirement Accounts (IRAs) come in several forms that can fit almost any need. A traditional IRA allows for tax-deductible contributions and earnings that have no tax impact. Withdrawals at retirement are taxed as income. Roth IRAs are made with after-tax assets so withdrawals are typically tax-free. A SEP IRA allows a small business owner or self-employed individual to establish an account in his or her own name rather than using a pension fund account in a large company's name. There are also SIMPLE IRAs that function much like a 401(k) plan but are less expensive due to lower administration costs.

### Invest in Your 401(k)

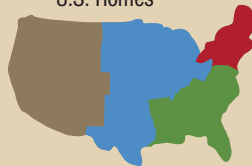
There are several advantages to contributing to your employer-sponsored 401(k) plan. If you make salary contributions on a pre-tax basis, your contribution is deducted before taxes are computed so you are not taxed (immediately) and your taxable income is less. You can defer your income tax payments on saved money until you withdraw them. You have the additional benefit in a participant-directed plan because you can specify your stock, bond and money market investments to diversify your portfolio. Many companies will match a percentage of your contributions, which is in effect a high-yield interest on your investment.

### Good Insurance for the Future

When evaluating life insurance plans, consider that many companies offer a participating policy (also called "with profits"). This allows the insured to participate in the insurance company's profits while maintaining an active life insurance policy. This is a wise way of having life insurance coverage while making long-term capital growth.

## The Price Tag on the American Dream

The Median Sales Price of U.S. Homes\*



West	Midwest	South	Northeast
\$341,300	\$165,300	\$185,000	\$276,800

### National Trends:

1990	\$95,500
1995	\$112,900
2000	\$139,000
2005	\$219,600
2007	\$222,600

Purchasing a home is a good investment because it builds equity over time. However, to base spending on perceived equity is a bad idea—equity is not tangible until it is released! You should never refinance your home for the purpose of making any type of investment.

\* Source: realtor.org



# Start Budgeting Today!

The sooner you start, the sooner you will start taking control of your finances. Follow these six steps and you'll soon find extra money to invest.



**Step 1** Figure out your income by averaging together your last several paychecks.

**Tip>** If you recently got an annual bonus or worked unusual hours, try to exclude those numbers from your estimate.

**Step 2** Track your expenses, which include monthly bills and everyday purchases.

**Tip>** Minor expenditures can be hard to track, especially if you pay in cash, so bring along a notepad to write them down.

**Step 3** Do the math to figure out what your bottom line is.

**Tip>** It is easiest to fill out a budget worksheet, which will include all the expense categories.

**Step 4** Repeat the process over the next three months and compare your results.

**Tip>** One month may have a large, one-time incidental expense, but plotting it out over three months will eliminate these abnormalities.

**Step 5** Pick out the month with the lowest amount of expenses and replicate it.

**Tip>** To get even more involved, try charting another three months with the lowest amount to attempt to lower it even further.

**Step 6** Once your ideal monthly budget has been documented, put it in place as your budget.

**Tip>** Don't forget to revisit this process often to check on your progress and allow for adjustments in your income or necessary expenditures.

## Compound Interest

The most prevalent form of interest is compound interest, which calculates interest accrual not only on the principal but on the unpaid interest as well. As a result, an account with compounded interest will grow faster than the less common simple interest account. Naturally, an amount will increase faster the more frequently the interest is compounded.

Many consumers will be familiar with compound interest, which is used by credit card companies and financing agencies. However, compound interest can also work for you in the form of a savings account or money market account, which will reward more the longer your funds remain untapped. For additional information regarding compound interest, check with your bank or financial adviser.

A general theory called the Rule of 72 can be used to figure out roughly how long it will take to double your original principal. If you divide 72 by your average interest rate, your answer will be the number of years it will take to double the principal. However, this does not take into account several factors such as taxable growth (if applicable) and inflation.

Use this example to figure out what it will take for you to double your money with compound interest.

Start with \$100 and 9% compound interest from the bank.  
With 9% compound interest, your money will double in 8 years.

$$72 \div 9 (\%) = 8 (\text{years}) \quad \$100 \text{ doubled to } \$200$$
$$72 \div \underline{\quad} (\%) = \underline{\quad} (\text{years}) \quad \$\underline{\quad} \text{ doubled to } \$\underline{\quad}$$

## Resources on the Web:

**Compound Interest Calculator** – [www.moneychimp.com/calculator/compound\\_interest\\_calculator.htm](http://www.moneychimp.com/calculator/compound_interest_calculator.htm)

A handy form that will compile your compound interest, given principal, interest rate and length.

**World's Simplest College Cost Calculator** – [www.savingforcollege.com/college-savings-calculator](http://www.savingforcollege.com/college-savings-calculator)

Will help determine the optimum amount to put away based on your child's age and targeted tuition price range.

**Envelope Budgeting** – [www.envelopebudgeting.com](http://www.envelopebudgeting.com)

An entire site devoted to the art of envelope budgeting, which involves setting aside money on a regular basis to be used for a specific purpose.

**Roth vs. Traditional IRA Calculator** – [www.planningtips.com/cgi-bin/roth.pl](http://www.planningtips.com/cgi-bin/roth.pl)

Here you can crunch numbers to compare the most popular two IRA plans and help determine your best option.