MF Advisers
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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

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Here comes summer! I hope everyone had a great Memorial Day weekend. Please read this month's newsletter, and let me know if you have any questions...thank you!

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Near-Zero Interest Rates: Tradeoffs for Investors

The Federal Reserve's continued affirmation to maintain the federal funds rate in a range between 0.00% and 0.25% through December 2014 has generated the usual analysis about whether Chairman Bernanke and his colleagues are doing the right thing. But the Federal Reserve's policy may be less about right versus wrong than about the tradeoffs for investors and consumers.

Maintaining interest rates at a historically low level, which has been the Federal Reserve's policy since December 2008, is a tool for stimulating economic growth.

When the Federal Reserve makes a determination about movements in interest rates, it bases its decision on prospects for economic growth and whether existing growth can be sustained. The Federal Reserve considers the outlook for inflation, the federal budget, consumer finances, corporate earnings, and a variety of other factors. Maintaining interest rates at a historically low level, which has been the Federal Reserve's policy since December 2008, is a tool for stimulating economic growth.

A Domino Effect

The fallout from the Federal Reserve's actions can be significant. The federal funds rate influences the prime rate, which in turn has a bearing on rates that lenders charge for consumer and corporate borrowing. When the prime rate is relatively low, lenders may offer lower rates for mortgages, credit cards, and other forms of credit than they otherwise would. It is important to remember that consumer demand and a household's creditworthiness are also significant factors in interest rates assessed by lenders.

There are other plusses associated with low short-term rates. Borrowing costs are relatively low for corporations, which can impact earnings and escalate stock market returns.[1] In addition, with banks offering marginal returns on savings products, investors have a strong incentive to add to equity allocations with the goal of earning higher returns.

A Flip Side

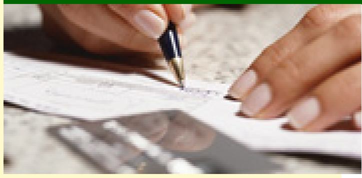
Just as low short-term interest rates bring certain benefits, there may be drawbacks for investors and also for the broader economy. When short-term rates eventually go up, the situation is likely to be a negative for bondholders because of the inverse relation between interest rates and bond prices.[2] Historically, rising interest rates have caused the prices of existing bonds to decline because newly issued bonds carry higher rates, which push down the value of previously issued securities. Holding a bond until maturity, when an investor can recoup principal, can lessen interest rate risk.

Low interest rates also are a potential negative for savers; in particular, for retirees who depend on savings products to finance living expenses. In addition, there remains the question of whether low short-term interest rates encourage certain investors to gravitate to assets that are relatively risky given the investor's time horizon and tolerance for volatility.

Economic policy frequently presents both plusses and minuses, and low short-term interest rates are no exception. You may want to evaluate your exposure to interest rates risk and think about how you will cope with the situation when Federal Reserve policy changes.

[1] *Investing in stocks involves risks, including loss of principal.*

[2] *Bonds are subject to market and interest rate risk if sold prior to maturity. Bonds are subject to availability and change in price.*



How to Improve Your Credit Score

While it seems counterintuitive to hold on to accounts you no longer use, keeping an older credit card or bank account open actually can work to your advantage.

Repairing bad credit is not quite as simple as repairing your car or a broken vase. It can take years for your credit score to bounce back from a delinquency or default. And without a good credit score, you can find yourself fielding rejection notices when you apply for a loan or credit card. Or you could have to pay a significantly higher interest rate to borrow than someone with a higher score.

Why is your credit score so important? It's the number (usually between 300 and 850) that lenders use to gauge how likely you are to repay debts on time. It is derived from information compiled in a credit report -- including your payment history, the amount you owe creditors compared with the amount of credit that is available to you, and the extent of your credit history. Generally speaking, the higher your score, the lower your perceived risk to lenders.

Know Your Number

Before launching a campaign to raise your credit score, know what you are shooting for. Get a current copy of your credit report and review it for accuracy. All consumers are entitled to free annual credit reports from the major credit reporting agencies, Experian, Equifax, and TransUnion. You can request all three reports at www.AnnualCreditReport.com. Unlike credit reports, your credit score is not free. You can purchase your score from one of the above-mentioned agencies or from myFICO.com.

Room for Improvement

Here are four tips for raising or maintaining a higher credit score.

1. **Pay your accounts on time and keep your monthly balances low.** Lenders are looking for a proven track record of making timely payments. Payment history determines about 35% of your credit score.
2. **Be conservative in the amount of available credit you use at any given time.** About 30% of your score is determined by what the industry refers to as your "utilization ratio," which is the amount you owe in relation to the amount of credit available to you. If that percentage is more than 50%, it will have a negative impact on your score.
3. **Hold on to older, unused accounts.** While it seems counterintuitive to hold on to accounts you no longer use, keeping an older credit card or bank account open actually can work to your advantage. The longer an account has been open and managed successfully, the higher your score will be.
4. **Maintain a diversified credit mix.** If you hold an auto loan, a home mortgage, and credit cards that are well managed, you will generally have a higher credit score than someone whose credit consists mainly of finance companies.

Understanding 529 Plan Distributions

Note that expenses must apply to a qualified college, university, or vocational school for post-secondary educational expenses.

Parents looking to take advantage of the many benefits of saving for college with a 529 plan will want to know the full details on which educational expenses qualify for tax-free distribution status -- and which do not.[1] In Publication 970, the IRS gives detailed guidance on qualified expenses. Here are a few important points.

What's Covered

- Tuition and fees are covered in full.
- Room and board, if the student is enrolled at least half time. But such expense must be not more than the greater of (1) the allowance for room and board, as determined by the school, that was included in the cost of attendance; or (2) the actual amount charged if the student is residing in housing owned or operated by the school.
- Food. If you spend a certain amount for a meal plan, that entire amount can be deducted, even if used for coffee or ice cream and not a full meal. Weekend meals can also be included if the dining halls are not open.
- Books and supplies. Any fees associated with purchasing school textbooks are considered qualified, as are required equipment or supplies such as notebooks and writing tools.
- Computers/laptops, but only if required by the school. If required, Internet fees and PDAs or "smart phones" may also qualify.
- Special-needs services required by special-needs students that are incurred in connection with enrollment or attendance at school.

What's Not Covered

- Student loans. Interest on or repayment of student loans is not considered a qualified expense by the IRS.
- Insurance, sports or club activity fees, and many other types of fees that may be charged to students but are not required as a condition of enrollment.
- Transportation to and from school.
- Concert tickets or other entertainment costs, unless attendance is requisite to a course or curriculum.

Note that expenses must apply to a qualified college, university, or vocational school for post-secondary educational expenses. Also keep in mind that taxes and a possible 10% penalty will apply to all distributions that are not considered qualified educational expenses by the IRS, so be sure to check first.

When tapping your 529 account, be sure to avoid taking too much or too little.

- **If you take too much:** The excess will be classified as a nonqualified distribution. You or your beneficiary will have to report taxable income and pay a 10% federal penalty tax on the earnings portion of the nonqualified distribution. The principal portion is not subject to tax or penalty.
- **If you take too little:** If your child graduates and does not attend post-graduate school -- or if you do not have another child you can change the beneficiary designation to -- you'll be left with a 529 account that, if used for any other purpose, will incur tax and a 10% penalty. If you have a substantial balance left in your 529 account, consider tapping the account at the earliest tax-free opportunity.

Also be sure to coordinate with other family members who may have funded 529 plans for your child to help determine which accounts should be used first.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

[1]Investing in 529 plans involves risk, including loss of principal. By investing in a 529 plan outside of the state in which you pay taxes, you may lose the tax benefits offered by that state's plan. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary.

Before you invest in a 529 plan, request the plan's official statement and read it carefully. The official statement contains more complete information, including investment objectives, charges, expenses, and the risks of investing in a 529 plan, which you should carefully consider before investing. You should also consider whether your home state or your beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's 529 plan. Section 529 plans are not guaranteed by any state or federal agency.