Wi$eUp Teleconference Call
July 31, 2008
Facing Financial Challenges in an Uncertain Economic Environment, Part II
Speaker 3 – Michael Fitzgerald

Jane Walstedt: And now I'd like to ask Beverly Lyle, the Women's Bureau Field Coordinator and its Regional Administrator in Dallas, to introduce our third speaker. Beverly…

Beverly Lyle: Thanks, Jane. Good afternoon. Since 2000, Michael J. Fitzgerald has been helping his clients build a better financial future with great financial life planning and investment advice.

He is President and a Principal of Fitzgerald Financial Partners LLC, and earned his license as a Certified Public Accountant. He is also…holds a Masters of Tax Consulting. He believes in using all eight of the investment asset classes to truly help his clients reach their retirement income replacement goals.

He is an Investment Advisor Representative of a fee-only Wealth Management Registered Investment Advisory Firm, Fitzgerald Financial Partners, LLC in Houston, Texas, that focuses on 100% retirement income replacement strategies and total portfolio tax minimization retirement distribution planning.

He is also… he also obtained the highest financial planning designation given only to trusted CPAs, the Personal Financial Specialist accreditation, as well as obtained the Certified Financial Planner designation.

It is my pleasure at this time to introduce Mr. Michael J. Fitzgerald.

Jane Walstedt: Michael? Have we lost Michael here?
Coordinator: He's here. He muted himself. Let me un-mute him.

Jane Walstedt: Okay.

Coordinator: Go ahead, Michael. Your line is open now.

Michael J. Fitzgerald: Thank you. Thank you, Bedda, and thank you, Bill, for setting an excellent foundation for people that have been displaced or possibly may be facing a job loss. They have both done an excellent job in providing the listeners with some real usable information.

And thank you, Beverly, for that gracious introduction. And thank you once again for having me here today. I'm really glad to be here to discuss a subject that everyone always has in the back of their mind-- losing their job and how it will affect them financially.

Being a Gen Xer myself, I see the problems that affect most of us in this phase of our lives. Whether you're Joe Torre or Jane Cubicle, your “at will” or most realistically “fire at will” contract with your employer may come to an end unexpectedly.

Hopefully you have seen the writing on the wall and given yourself time to prepare. The one certainty in life is it's going to change, so you should be thinking ahead and protecting yourself.

The best way to protect yourself is to have a well-thought-out plan to identify and plan for the financial pitfalls that we all face. When we advisors talk about asset allocation/diversification, some of us are not just talking about boxes or stars.
To truly have a diversified portfolio, you need to spread the risk around all the sources of income generation. Stocks, bonds and cash all have their certain amount of risk. Working for someone else or owning your own private company has its own risks as well. Knowing what those risks are will help to safeguard you against a sudden drop in their value.

Think of emergency planning just as you would insurance. You hope you never have to use it, but you're happy that you have it when you need it the most.

The thing you need to remember is that you are the president of your own personal service company. This is even true if you get a paycheck from an employer. Think about when you first interviewed or sold your services to a new client and received your offer letter.

In that letter your boss agreed to pay you X amount if you agreed to perform Y duties. This is no different than a company entering into a contract with another company to perform services. There are no guarantees, and at any point in time and for any reason your boss can terminate this relationship “at will.”

That sounds like you're really in business for yourself, so you must always be ready to move to that next client and that next paycheck. The bad news is instead of having diversified your income stream among different clients, you now only have one client who has just terminated your only source of income. Now what are you going to do about it?

We’ve always been taught to keep a first aid kit in the car and to always have a fire extinguisher in the kitchen in case of emergencies. But preparing for a job loss isn't something that's a given when thinking about disaster preparation.
Waiting until the disaster strikes versus preparing for it will most likely determine how bad of a loss you will sustain. Just like in a disaster, how prepared you are will determine how well you survive the chaotic environment afterwards.

We can define loss in lots of terms: loss of your current income, having to take a less desirable position when you really do not want to, loss of valuable retirement accumulation time, and possibly financial bankruptcy.

Here's a quick list of things that you should do while you're still employed. A job loss can be emotionally overwhelming, so do yourself a favor by taking some proactive steps to get a few necessary things in order before you're shown the door.

Build a bigger emergency fund. While most experts recommend three to six months of emergency funds, I think this level may not be sufficient for people who are married with children. For example, a single person in their 20s has fewer fixed expenses and financial responsibilities—a mortgage, childcare and healthcare—and can use many options to get a new job or reduce expenses, including packing up and moving where the jobs are.

On the other hand, a person who's married with children and a large mortgage in a falling real estate market may have less freedom to pack up and move. Therefore, it may be more difficult to reduce the fixed expenses or find a new job in a stagnant economy and therefore [she] would need a larger emergency fund to weather the storm.

Jane Walstedt: Mike.

Michael J. Fitzgerald: Yes.
Jane Walstedt: Can I just ask you to slow down a little bit? We'll give you whatever time you need.

Michael J. Fitzgerald: Sure. The money that's used in an emergency fund is not a savings vehicle. This is money that should only be used when you have no other sources of income coming in and can be made up of multiple tools.

Always remember, cash is king. Only keep enough cash on hand for emergencies to hold you over until you get more money out of the bank. A few days' expenses should be fine.

How much do you have in loose change at home right now? You might be surprised. This can be used to be cashed in to add to your emergency fund.

Highly liquid savings or money market accounts. These should be used for making payments on fixed living expenses for a few months. If you can use your ATM card to get the cash, then you shouldn't have any problems. I would even consider using a different bank than the one you currently bank at. That way you will be less inclined to dip into your emergency fund.

You can also set the account up for automatic bill pay and have weekly or monthly deposits made into it. As you can see from the latest savings rates, you're not earning much on the money, so keep the balances low.

Credit. If you're clever, you have learned to use your credit as a tool. You have learned to manage your credit as a cash flow vehicle and to use other people's money to get the things you want while your money earns interest.
The key with credit is to build two years’ worth of cash flow replacement, either through your personal [credit] or through a side business with its own pre-established credit or lines of credit.

Credit card points. Cash in all of your points for emergency gift cards. These can be used to buy groceries and medicine. By utilizing your credit correctly, you can pay for a lot of your unemployment costs with AMEX gift cards each year or build up your AMEX points for emergency funds.

If you had two years’ worth of credit access, you could realistically survive any downturn in the economy, even without a job.

Mortgage or credit card unemployment insurance. This might be worth getting if you still have a job and are worried about your job's future. Many mortgage companies and credit card companies will make the minimum payments or at least the interest payment while you're unemployed.

You can borrow from a cash value life insurance policy or tap into an existing line of credit. [Editor’s note: Cash value life insurance is a type of insurance where the premiums charged are higher at the beginning that they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds up a cash value that may be used in a variety of ways. You may borrow against a policy’s cash value by taking a policy loan (http://www.insureuonline.org/Consumer_Guide_Life.pdf).]

If you're going to get a home [equity] line of credit, [you must do this before you are terminated and] remember don't put your house on the market first, because banks won't loan you money for the equity, because they think that you're going to get rid of your home. You may want to go ahead and get the line first and then put your house on the market.
Here's a neat little trick. If you own rental property, look at harvesting the previous years’ taxes through a cost segregation study. [Editor’s note: A cost segregation study identifies and reclassifies personal property assets to shorten the depreciation time for taxation purposes, which reduces current income tax obligations.] Now that you're unemployed, you might be able to qualify as an active real estate investor and carry those losses back and get the last two years of tax that you paid.

If need be, you could always sell some of your stuff on e-Bay or Craigslist. You'd be surprised how much cash you can raise from stuff you're not using anymore.

Now that you know how much cash or credit you will have on hand, I would take a look at what my cash flow was going to look like over the next two rolling years. Through cash flow budgeting, I would project out my normal cash flow for the next two years to see my incoming and outgoing cash flows and try to figure out if there are any shortfalls or surpluses in any two-week period.

This is something everyone should do, regardless of job loss. Here's where good credit planning can help you weather timing of your cash flows. I have a great spreadsheet that you can use to project out the timing of your cash flow over the next few years, if you'd be interested.

Another benefit of using credit to fund shortfalls is reduced paperwork. By putting all of your bills and purchases on credit cards now -- only if you're able to pay them off every month, you are better able to track your expenses and really focus on what you could reduce from your budget.
Also by using Upromise (http://www.upromise.com/), you can set up a 529 plan to help you pay for your education expenses. [See IRS Tax Topic 313. A Qualified Tuition Program, also called “529 Plan,” is established and maintained to allow either prepaying, or contributing to, an account established for paying a student’s qualified higher education expenses at an eligible educational institution.]

[Upromise helps people of all ages achieve their dreams of a college education. To do that, they’ve partnered with hundreds of America's leading companies to create a rewards network for Upromise members--whenever members buy something from one of our partners, they receive a portion of their eligible spending back in the form of college savings.]

If it is projected that you're going to have a personal net operating tax loss, you can request a rapid refund on Form 1045 to get taxes that you paid in the previous two tax years. This could be used to help weather the storm. Always consult an advisor.

You can start to see there is no difference from what your employer does right now. They set their yearly budget and then use debt financing to weather the timing of their receipts, and to ensure that they can pay their operating bills as they come due.

If you took the same strategy with your personal life, you could have a better understanding of how your personal finances really work. You are your own company. If you’re in an industry most likely to be hit by economic downturn, maybe now is the time to start either building your skills or looking for new opportunities in other industries.

It is always easier to get a job when you have a job. It is always better to leave on your terms versus someone else's.
Whenever you have a job loss, think of this as a test run for retirement. When you're retired, you're responsible for creating retirement paychecks. If you had to look at your current assets and now divide them by your monthly gross paycheck, how long could you survive by replacing 100% of your income? If you are not happy with the results, now is the time to effect change.

This would be the same formula that you used to survive a job loss. Based on my current emergency fund, how long could I survive without any income? You have always been working for yourself and the sooner that you realize it, the better off you'll be. “At will” employment is the same as being self-employed. At any point in time your employer can decide that they no longer need your services.

If you haven't diversified your risks, this can be financially devastating to you and your family. A prime example is Enron. Not only were they heavily invested in their own company stock, they had their 401(k) plans invested in the company stock as well.

So the money that they were earning from the wages was being invested in the company where they were earning their money. So if that company went out of business, not only would they lose their monthly income, they would lose all the assets that they had purchased.

This is way too much concentrated risk for anyone to handle. If the only money you are earning is from your job, maybe it's time to find ways outside of your job to produce income and diversify your risk away from your only client.

I went ahead and put together a list of the top 10 ways to save for an emergency fund.
The number one reason would be to scale back on your cable. Instead of focusing on TV, focus on getting better skills or a better job. What benefit will you get by sitting in front of the TV? Don't make success end at your front door.

Cut the landline. If most of your calls are to other cell phone users in the same network, consider canceling the landline and using your cell phone as your only phone.

Cherry-pick coupons. Combine coupons and store sales to maximize your savings.

Say no to fast food. Unless you only eat off the dollar menu, eating out can add up. Consider the cost of a combo meal for four people versus sandwiches, chips and drinks from home.

Read not, waste not. Cancel subscriptions to magazines and newspapers you haven't been reading or see if the publication has an online version you can access for free or for less than the printed copy.

Transfer existing debt using zero percent balance transfer offers. If you're heavy in debt, make becoming debt-free a top priority, but not before you set up your emergency fund. Moving existing balances to zero percent interest rate plans helps more of your payments go towards replacing the balance and less towards interest.

I would ask my creditors to lower your interest rate and increase your available credit. If you have good credit, this will help increase your credit score. Creditors are seeing the crunch too, and they recognize it takes more money to find a new customer than to retain a current one.
I would shop your insurance. Assuming you have a proper emergency fund in place, raising your deductible on your insurance policies can help reduce the monthly outflow.

One of the key things is to adjust your W-4 income withholdings. The fastest way to give yourself a pay raise for your emergency fund is to reduce the amount of taxes withheld from your paycheck. If you received a huge refund last year or if you expect a huge refund in your current year taxes, increasing the number of exemptions on your W-4 will reduce your withholdings.

One of the key ways is to learn ways to minimize your taxes. This will be the biggest increase to your personal wealth. Always have a professional help you with this.

Diversify your income. Look for ways to increase your income outside your full time job. Do you have a hobby that you can make a small business? Can you spend some time working to produce extra cash? Could you add some freelance work in the same or a different line of work, maybe being a virtual assistant?

My secretary's a virtual assistant. I've never met her. And she does a great job by working out of North Carolina. If you set up a side business, you can establish its own 401(k) plan. You're a new company, and, if need be, borrow money from yourself versus taking a taxable distribution that might be subject to the 10% penalty.

Losing a job is no different than being retired. What you need to understand is that you've always been working for yourself. You need to find a way to systematically replace the income that you have been accustomed to from your employer through the total income generated from all of your assets.
The moment that you can attain this goal is the moment that you realistically can retire.

Well, thank you very much. It's been a real pleasure, and please let me know if you have any questions or if you would like me to have the spreadsheet posted with this presentation.

If you need some additional assistance, please visit www.retirementcalc.com, where you can schedule a free meeting with a financial advisor that would go over the free calculator that we offer. Thank you.

Jane Walstedt: Thank you, Michael, and those were a lot of good suggestions. I want to remind our listeners that after the call, we post the call in three formats, including an audio version and a transcript version. So you can go back and refresh your memory about what was said on this call.