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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

June 2016

Hello FF readers! Time to enjoy your summer! Please read this month's newsletter, let us know if you have any questions, and forward this to anyone who you think we might be able to help - thanks again!

Martin A. Federici, Jr.
MF Advisers, Inc.
CEO
marty@mfadvisers.com
570-760-6524
Fax: 570-675-7105
91 Franklin Street
Dallas, PA 18612
http://mfadvisers.com

In This Issue

College Planning -- It's About More Than Money

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Choosing a way to save for your child's education expenses may be your family's first college planning decision, but it certainly won't be the last. From making that first deposit, to selecting a college, to choosing a course of study, you and your child will be making choices that can have a financial impact for years to come.

How Will You Save Enough?

Starting to save for college when your child is young may give you the best chance for accumulating a significant amount of money. Section 529 plans -- prepaid tuition plans designed to lock in today's tuition rates at eligible institutions -- and college savings plans, which permit contributions to an investment account set up to pay qualified education expenses, are popular tax-favored options. [1]Coverdell Education Savings Accounts also offer tax advantages, although contribution limits are relatively low.[2] Custodial accounts set up under the Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) are another option to consider.

The Financial Aid Game

By the time college gets close, your family's life may seem to be ruled by deadlines. There are different deadlines for college applications, scholarship applications, and the FAFSA (Free Application for Federal Student Aid) submissions. Applying well in advance of the deadlines can boost your child's chances of getting accepted to the school of his or her choice and receiving a favorable financial aid package. If you wait too long, spots may already be filled and aid money given to students who applied earlier.

Dissecting Aid Packages

Typically, aid packages consist of grants, loans, work study, and an expected family contribution. When reviewing aid offers, compare apples to apples. Start with the cost of tuition at each school. Then look at how much of the aid package consists of loans that will have to be repaid. Make sure non-tuition costs, such as room and board, books, equipment, transportation, and fees, are included in the school's cost estimates. It's a good idea to do your own cost estimate and use that as your basis for comparing offers.

The Right Fit

As important as it is, money shouldn't be the only criterion used when choosing a college. Lower cost of attendance or generous financial aid is most valuable if the college is a good fit for your child's abilities, personality, and goals. Choosing the wrong college could cost a bundle in lost opportunities if your child is unhappy or doesn't feel sufficiently challenged by the curriculum.

Look Toward the Future

A college education is an investment in the future, so parents may want to discuss choosing a course of study that will lead to a career. Talk to your child about the importance of preparing for life beyond college by obtaining the practical skills and knowledge needed to land a job after graduation. By planning ahead, your child may turn his or her interests into a successful career.

[1]*Certain benefits may not be available unless specific requirements (e.g., residency) are met. There also may be restrictions on the timing of distributions and how they may be used.*

[2]*Internal Revenue Service. The annual contribution limit is $2,000. Taxpayers with modified adjusted gross incomes (MAGIs) of more than $220,000 (for married couples filing a joint tax return) and $110,000 (for singles) may not contribute. For most taxpayers, MAGI is the adjusted gross income as figured on their federal income tax return.*

Avoid These Financial Traps -- They May Be Hazardous to Your Wealth

Short-term debt will become long-term debt if you're paying only the minimum amount toward your balances.

Money. It's hard to get and easy to lose. It doesn't take long for the wealth you've accumulated to disappear if you don't manage your money well or have a plan to protect your assets from sudden calamity.

Snares like the ones mentioned below could easily threaten your financial security. Planning ahead can protect you and your loved ones from getting caught.

Undisciplined Spending

The more you have, the more you spend -- or so the saying goes. But not paying close attention to your cash flow may prevent you from saving enough money for your future. Manage your income by creating a spending plan that includes saving and investing a portion of your pay. Your financial professional can help identify planning strategies that will maximize your savings and minimize your taxes.

High Debt

With the easy availability of credit, it isn't hard to understand how many people rack up high credit card balances and other debt. Short-term debt will become long-term debt if you're paying only the minimum amount toward your balances. If you can't pay off your credit card debt all at once, consider transferring the balances to a card with a lower interest rate.

Unprotected Assets

Your life, your property, and your ability to work should all be protected. Life insurance can provide income for your family if you die. Homeowners and automobile insurance can help protect you if your home or car is damaged or destroyed and provide liability coverage if someone is injured. Disability insurance can protect your income if you're unable to work.

Unmanaged Inheritance

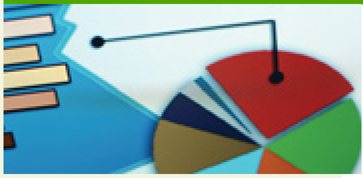
A financial windfall is great, but it also can be dangerous. Without solid advice on managing and investing the money, you could find that your inheritance is gone in a much shorter time than you would have thought possible. Your financial professional can help you come up with a plan for managing your wealth. Setting aside a portion of the money to spend on a trip or other luxury while investing the rest may be one way to reward yourself and still preserve the bulk of your assets.

Neglected Investments

Reviewing your investments to make sure they're performing as you expected -- and making changes in your portfolio if they're not -- is essential. But it's also essential to periodically review your investment strategy. You may find that your tolerance for risk has changed over time. You'll also want to assess the tax implications of any changes you plan to make to help minimize their impact.

Retirement Shortfall

If you're not contributing the maximum amount to your employer's retirement savings plan, you're giving up the benefits of pretax contributions and potential tax-deferred growth. Maximizing your plan contributions can start you on your way to a comfortable retirement -- hopefully with no traps along the route.



Diversification: A Big Word, With Bigger Investment Implications

In today's market environment, diversification is more important than ever.[1] But what is the thinking behind this big word? The process of diversifying -- or dividing your money among different types of investments -- is based on the idea that different asset classes tend to react differently to similar market conditions. So by diversifying your portfolio, you may help reduce the risk that a loss in one asset class will drag down your entire portfolio.

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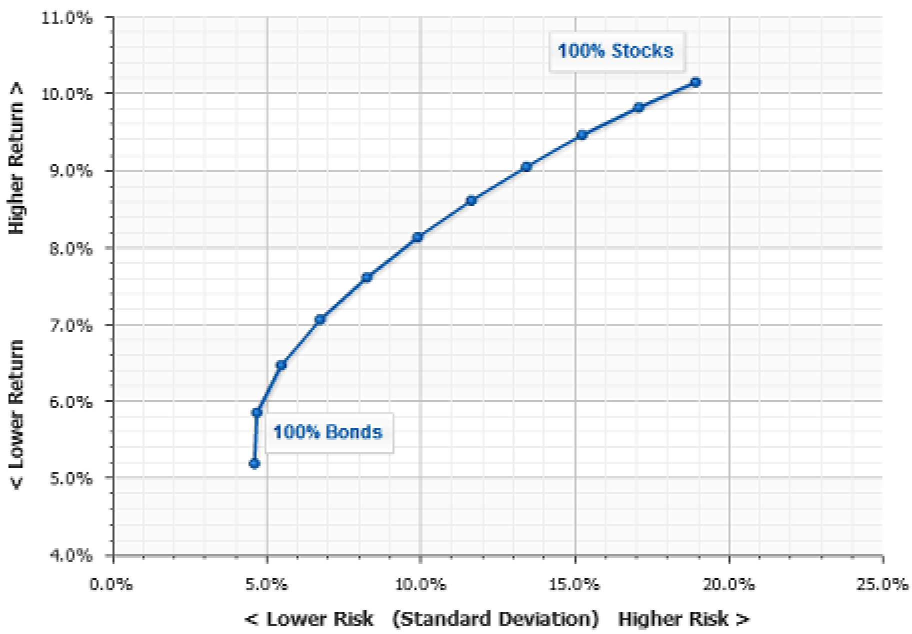
The Right Mix May Help You Manage Risk



Source: ChartSource®, Wealth Management Systems Inc. Results include total annual returns for the period January 1, 1926, through December 31, 2014. Bonds are represented by a composite of the total returns of long-term U.S. government bonds, derived from yields published by the Federal Reserve through 1972, the Barclays Long-Term Government Bond index through 1975, and the Barclays U.S. Aggregate index thereafter. Stocks are represented by the S&P 500 index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

Diversify Within and Among Asset Classes

To diversify your portfolio, first select among major asset classes, such as stocks and bonds.[2] The chart above shows how diversifying your portfolio with stocks and bonds may help reduce risk over time, although past performance is no guarantee of future results. Second, consider diversifying within an asset class, such as stocks. For example, if your primary objective is growth, you might choose to invest the majority of your money in "blue-chip" stocks and small-cap stocks.[3] You may also want to consider adding foreign investments to your portfolio mix.[4] Foreign investments make up more than half of the world's total market, so if you are not investing overseas, you may be limiting your opportunities.

Sometimes Less Is More

Diversification is often described as putting your eggs in different baskets. The mix of "baskets" you choose should depend on your goals, time frame for those goals, and ability to tolerate risk. Long-term investors may choose more stock investments, while shorter-term investors may select a mix weighted toward bonds and cash investments such as certificates of deposit.[5]

No matter what combination you choose, make sure each investment plays a specific role in your overall objective. In investing, more is not always better -- strategic diversification is the key.

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

[1]*There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.*

[2]*Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.*

[3]*Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments.*

[4]*Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.*

[5]*CDs are FDIC insured and offer a fixed rate of return if held to maturity.*