

The Financial Navigator - February Newsletter

In this issue we wanted to summarize the recent credit card law that went into effect this month, and share some thoughts on protecting your assets against inflation. Please feel free to forward this newsletter to any individuals that you think might be interested. If you don't want to receive future editions, please follow the link at the end of this email to safely unsubscribe, or email us at the address below.

Sincerely,
Bill Simpson, CFP®, MBA
Azimuth Financial Planning, LLC
(603) 373-8793
bsimpson@azimuthplanning.com
www.azimuthplanning.com

2010 Credit Card Law

The new federal credit-card law (Credit Card Accountability, Responsibility, and Disclosure (CARD) Act) that took effect on Monday could erase billions of dollars a year in fees and interest charges paid by consumers. The law made some important changes some of which are highlighted below:

- Card companies must now tell customers how long it would take to pay off the balance if they only make the minimum monthly payment.
- Customers can only exceed their credit limit if they agree ahead of time to pay a penalty fee.
- Interest rates cannot be arbitrarily changed if you happen to be late on paying another credit card bill, utility bill, car payment, etc., which was a common practice.
- Interest-rate increases will affect only new purchases, not existing balances, unless the cardholder misses payments for more than 60 days, a promotional rate expired, or the variable rate increased due to index movement. "Basically, the rate that you have when you make a purchase with your card is going to be the rate that's applied to that amount forever," says Emily Peters, a credit expert for San Francisco-based Credit.com.
- Penalty fees, including late fees, must be "reasonable" and "proportional to such omission or violation," according to the legalese of the Credit CARD Act.
- Consumers will receive their statements at least 21 days before the due date, up from the current requirement of 14 days, allowing them more time to pay and avoid late fees. In addition, if a bill is due on a holiday or weekend, the credit card company must give the consumer until the next business day at 5 pm to pay the bill.
- To protect college students, which the credit card companies have targeted for years despite the fact they often didn't really have the ability to pay the credit card bills, CARD requires that anyone under the age of 21 must have a job to be approved.

However, some experts note that card issuers are already deploying new tactics that could prove costly for even the most cautious cardholder in order to make up for the lost revenue due to the law. Be ready for higher annual fees, increased charges for overseas transactions, higher balance transfer charges, and higher interest rates on many cards. There will also be more fees for extra services such as getting

extended warranties, requesting paper statements, or making online purchases from overseas merchants. In addition, many are trimming cash back incentives and loyalty reward programs.

The bottom line is as always it will pay to shop around for cards, pay attention to the credit card agreements, and in some cases to play hardball with credit card companies by threatening to drop the card if fees are hiked or initiated. You would be surprised how often they will decrease or drop an annual fee if you are a valued customer. For more information on the new CARD rules check out the following website: www.newcreditrules.com. If you are being hit with new fees by your current card company and want to look for a low cost card check out www.creditcards.com or www.lowcards.com.

One final note, some experts are suggesting that you shouldn't cancel a card as it will hit your credit rating. The fact is if you have a high credit score the hit will only be in the low single digit range, so balance that out with the high fees you may be paying and perhaps consider canceling the card.

Inflation Protection for Your Assets

The large government deficits and the growth in government programs along with record low interest rates suggest that higher inflation is in the future. This outlook has helped to drive up the prices of inflation hedges such as gold, other commodities, and TIPS (Treasury inflation-protected securities). The question arises as to whether these asset classes as priced today are still good choices for inflation protection.

We always recommend an allocation, in the order of 5%-8%, to the broader commodity sector using mutual funds or exchange traded funds (ETFs). Investing in a singular commodity such as gold is not recommended due to its high volatility and its historical long-run mediocre return. Gold investing has been discussed in previous issues, but to summarize, it doesn't have a good track record of keeping up with moderate increases in consumer prices over the long haul. For example, over the past year gold has traded in the range of \$900-1,100 an ounce, little more than the price it commanded in 1980. If it had kept pace with inflation, gold would be selling at more than \$2,000 an ounce today. Some recent research has revealed that over the past 40 years if adjusted for inflation gold has offered very unreliable protection. For example, during the OPEC oil embargo from 1974-1976 the purchasing power of gold fell precipitously. It increased rapidly from 1976-1980 only to fall back just as fast from 1980-1982. This up-down trend continued until the mid eighties when gold started a steady slide until 2002 when it again started its recent upward trend.

So overweighting your portfolio to gold isn't likely to produce the desired result. Nor does it make sense to overweight the broader commodity sector, in fact with the recent gains in commodities you may want to consider rebalancing your portfolio by selling and reducing the commodity portion back down to its original allocation. If you do not have any exposure to the commodity sector, dollar-cost-averaging into it over a 6 month to one year period is advisable.

The question remains, what can one do to cushion the portfolio against the impact of higher inflation? Allocating a portion of one's portfolio to TIPS still makes sense, especially if you are near or in retirement. TIPS are US government bonds that adjust the interest payment based on the consumer price index (CPI). As the CPI rises, so do the interest payments as the face value of these bonds increases to replace the purchasing power lost to inflation. You can invest in a mutual fund that specializes in TIPS, such as the Vanguard Inflation-Protected Securities (VIPSX), or buy directly from the Treasury at treasurydirect.gov.

As always, TIPS should be a part of a diversified bond portfolio, and since this security had a significant run-up in 2008-2009, TIPS aren't the screaming buy they were a year ago when these securities were priced as though inflation would never rear its head again. Based on the fact that most investors would

prefer to be more hands-off rather than trying to determine when TIPS are cheap or expensive, I would suggest a simpler approach to mitigate the risk of buying TIPS at a high point. If you've determined that your portfolio is light on TIPS, consider dollar-cost averaging into a high-quality, low-cost TIPS fund, such as the one mentioned above, during a period of six months or a year.

Quotes for the day – *'The market can stay irrational longer than you can stay solvent.'* and, *'The avoidance of taxes is the only intellectual pursuit that still carries any reward.'* both from Economist John Maynard Keynes.

If you have any questions on this topics, or need some help with other financial issues you are facing give me a call at (603) 373-8793.