REGISTERED INVESTMENT ADVISORS

GORDON & ASSOCIATES
FINANCIAL ADVISORS, INC.
Your Fee-Only Financial Planning & Wealth Management Firm

Fourth Quarter 2008 (813) 289-9877

# How Far Have Housing Prices Dropped?

You don't have to be in the market for a house—or, worse, trying to sell one—to know home prices have been dropping across the nation, and residential real estate values may fall still further. During the past year, homes in the seven hardest-hit areas—Las Vegas, Miami, Phoenix, Los Angeles, San Diego, San Francisco, and Tampa—lost more than a fifth of their value on average. All 20 metropolitan areas included in the Standard & Poor's/Case-Shiller Home Price Indices have lost value in the past year. The composite index for the 20 areas fell 15.3% from April 2007 to April 2008, a record low. 13 of the 20 sectors posted record low annual declines, with 10 in double digits.

It's no coincidence the markets with the largest declines are those that enjoyed the most spectacular growth in prices during the past few years. During 2004 and 2005, for instance, homes in Las Vegas appreciated at an annual rate of more than 50%, while Miami residences gained 30% a year.

**Seeing *Red*:**
**Home values fell in all 20 metropolitan areas**
Year-over-year changes in housing prices from April 2007 to April 2008.

| Biggest Losers | | Best Performers | |
|---|---|---|---|
| Las Vegas | -26.8% | Charlotte | -0.1% |
| Miami | -26.7% | Dallas | -3.4% |
| Phoenix | -25.0% | Denver | -4.7% |
| Los Angeles | -23.1% | Portland | -4.7% |
| San Diego | -22.4% | Seattle | -4.9% |
| San Francisco | -22.1% | Boston | -6.4% |

*Source: S&P/Case-Shiller Home Price Indices*

That all changed when the subprime mortgage market collapsed. Easy credit for unqualified homebuyers ultimately spawned record numbers of foreclosures. And while the mortgage failures make up only a very small percentage of the overall market, they contributed to the glut of homes for sale, causing prices to fall in most major U.S. markets.

Las Vegas and Miami home prices fell most among the 20 real estate markets measured, losing 26.8% and 26.7%, respectively, during the April-to-April period. Detroit, Minneapolis, and Washington, D.C. rounded out the 10 markets suffering double-digit losses.

While many analysts view this downward trend as a normal market adjustment after home prices had more than doubled during the past decade, few anticipate a quick upturn. "There might be some regional pockets of improvement, but on an annual basis the overall numbers continue to decline," said David M. Blitzer, who chairs the index committee at Standard & Poor's,

The regional pockets of improvement that he is referring to are the eight markets that were positive in April, up from two markets without losses during March. Leading the indices in April were Cleveland and Dallas, at 2.9% and 1.1% respectively. In March, Charlotte and Dallas' monthly increases were the first in any of the 20 index markets since August 2007.

While seven markets reported losses of more than 2% in April, only two markets lost more in April than they did in March, which may be evidence of a

*(Continued on page 4)*

## *PLANNING FOR 2009*

As 2008 comes to a close, it is natural to reflect on the past year. It has been a difficult year for many and a time that we traditionally look back at the choices we have made. It is also a time to consider choices for the future. These may include the reallocation of a portfolio, a buy versus hold strategy for securities, decisions concerning real estate and other similar issues. During times like these, your financial plan is more critical than ever. Decisions should be made in the context of your entire plan and should not be based on emotion, but rather the facts surrounding your unique situation. Factors like risk tolerance, your planned retirement age, and tax implications are just some of the issues that should be considered. Our planning process uses a holistic approach and it is driven by your goals. We can help you understand the impact of various alternatives so you can make the best choices based on your life goals and objectives.

We wish you the happiest of holidays, and hope this issue of our newsletter will provide you with valuable information to inspire your thoughts about planning in the upcoming year. If you have any questions about the strategies or information presented in this newsletter, please feel free to call us.

Horace

# Self-Employed Get Deductions For Long-Term Care

If you're self-employed, the good news is you can deduct some or even all of what you spend for long-term care (LTC) insurance. But complex rules make this a potential mine field.

Normally, qualified medical expenses—including premiums paid for regular health insurance and LTC coverage—are deductible only to the extent that they exceed 7.5% of your annual adjusted gross income (AGI). For example, if your AGI this year is $150,000 and your family incurs $12,000 in unreimbursed medical expenses, your deduction is limited to $12,000 – 0.075 ($150,000), or $750.

If you're self-employed, however, the situation improves. Thanks to recent tax law changes, you can deduct 100% of your qualified health insurance expenses, including premiums for long-term care insurance, on page 1 of Form 1040. The 7.5%-of-AGI floor doesn't apply. What's more, you can also deduct what you spend to cover your spouse and any dependents.

To qualify for this tax break, your business must establish the LTC insurance plan, and you can't deduct more than your earned income from the business. Moreover, you can't take a deduction for any month during which you're eligible to participate in a subsidized health plan maintained by your business or your spouse's employer. So if you can obtain LTC coverage through your spouse's job this year but choose to buy it through your business, you're out of luck on the tax deduction, though you might be able to claim a partial deduction if the spouse's job situation changes.

Even if you qualify for a deduction for LTC premiums, the IRS imposes limits on how much you can deduct. The ceiling varies according to the age of the person who's insured. (See "Your LTC Tax Break" for the latest figures, which are adjusted annually for inflation.)

To see how this might play out, suppose that you're self-employed and pay $3,000 in LTC premiums in 2008 to cover yourself and $2,000 for your spouse. You're age 55 and your spouse is 49 years old. The IRS stipulates that the most you can deduct this year is $1,110, and the maximum for your spouse is $580. Assuming your spouse can't get long-term care insurance at work, you're entitled to deduct total business expenses of $1,690. That partially offsets your out-of-pocket cost of $5,000.

Keep in mind that the cost of LTC premiums may vary widely, depending on the terms of the policy, your age, your health status, and other factors. It pays to shop carefully to get the coverage you need at the best price. And remember to keep detailed records to back up your deduction in case of an IRS challenge. ●

### Your LTC Tax Break

Here's the maximum tax deduction for long-term care insurance premiums in 2008

| Age on December 31, 2008 | Deduction Limit |
|---|---|
| Age 40 or younger | $ 310 |
| Age 41 through 50 | $ 580 |
| Age 51 through 60 | $ 1,110 |
| Age 61 through 70 | $ 3,080 |
| Age 71 or older | $ 3,850 |

# Marriage Doesn't Mean Owning All Your Assets Jointly

Marriage is all about togetherness. Yet when it comes to owning assets, too much togetherness may not be financially healthy.

Owning assets jointly is more convenient than individual ownership, and it's the simplest way to avoid probate after a spouse's death. But couples often should consider separating their assets. Here's why:

**Estate tax implications.** Estate rules let spouses leave unlimited property to each other tax free. That's okay when the first spouse to die leaves everything to the second, but the second death could result in a whopping tax bill. Couples likely to have estate tax issues could acquire property individually to help maximize the value of each other's estate tax exclusion. While owning a house jointly is important for giving both spouses equal claim if they divorce, other assets can and should be held separately in roughly equal shares.

**Dividing jointly owned property.** How you take title also affects who can inherit your property. If you own it individually or jointly as "tenants in common," each of you may specify in your will that you want a particular asset or share of an asset to go to a designated heir. However, if you take title as "joint tenants" (with rights of survivorship) or "tenants by the entirety"—the most common form of ownership for married couples—you won't be able to say how assets are split. That may work if you and your spouse share the same beneficiaries. But it could be a problem if, for example, you're in a second marriage and want to divide assets among children from different marriages.

Consider John and Mary. Because they own their property as tenants in common, each holds 50%, and John

# Socially Responsible Funds Gain Popularity

There's nothing particularly new about the notion of investing without compromising principles. Nineteenth century American Quakers, opposed to war and slavery, chose not to include weapons manufacturers and slavery supporters in their portfolios. Investors who objected to South Africa's apartheid policies during the 1980s refused to put money into companies that supported those policies. But until fairly recently, socially responsible investing, or SRI, existed at the fringe of the investing community. Now it has entered the mainstream, with investors pouring assets into funds representing a diverse range of political, social, and even spiritual values.

By a recent count, there were 130 SRI funds, with combined assets of almost $50 billion, according to fund-tracker Morningstar*. Those numbers represent a quantum leap from 10 years ago, when Morningstar found just 39 SRI funds holding a combined $5.4 billion of assets.

One fast-growing SRI subgroup consists of religious funds that run the gamut from socially progressive to conservative. At the left-leaning end of the spectrum are funds that, like many non-religious SRI funds, shun corporations that have what fund managers consider questionable environmental, ethical, or human rights policies. Among the more conservative religious funds are those that restrict investments to only those companies that embody fundamental or traditional religious values. Some of these designate their approach as morally responsible investing, or MRI. The Ave Maria Catholic Values Fund, for example, may invest in companies that deal in defense systems, tobacco, or alcohol—anathema to many SRI funds—but excludes any firm that provides benefits to unmarried or same-sex life partners, sells or manufacture birth control products, or covers abortion services.

But not all religious funds focus on Christian values. For example, the Amana Trust Income fund invests based on principles of Islam. That means the fund must avoid putting money into banks or other firms that profit from charging interest, excessive trading, or that carry large amounts of debt. Those criteria have proved decidedly advantageous for investors recently, helping the fund avoid much of the fallout from the subprime mortgage crisis. In 2007, the Amana income fund returned 14.1%, according to Morningstar, putting it in the top percentile for its large-cap value category.

Of course, using non-financial criteria to choose an investment doesn't always have such fortuitous results. According to David Kathman, a mutual fund analyst at Morningstar, SRI funds haven't shown any clear performance trends, but the social screens used in portfolio selection do have an impact. "A lot of funds avoid companies that deal in alcohol, tobacco, or gambling," Kathman says. "Others target companies with a strong environmental track record, which can mean an emphasis on technology rather than on industrial manufacturing. Many of those funds were punished when the technology sector fell apart, and now they're largely missing out on a bull market in industrial stocks, fueled by economic growth in India and China."

That points to a major caveat for investors. When performance lags, it's usually not because the funds lack stock picking prowess. Though highly specialized SRI funds tend to have small asset bases, they typically delegate the actual selection of their portfolios to a sub advisor with a strong track record in retail or institutional investing. But often those sub advisors' hands are tied because many firms with a strong potential for earnings simply can't pass a fund's tough requirements.

Nicholas Kaiser, portfolio manager of the Amana Trust Income fund, notes that only 45% of the 5,000 stocks he follows are halal, or permissible under Islamic law. The Ave Maria Catholic Values Fund turns down a broad range of solid blue-chip companies and divests from its holdings any company that doesn't toe the line. According to David Kathman, that fund's performance has been mediocre; it ended 2007 down 4%, in the 92nd percentile of mid-cap blend funds. But he points to another fund for conservative Christian investors, the Timothy Plan Large/Mid Cap Value, that has done comparatively well since its 1999 inception, and now has more than $100 million in assets.

If you are eager to put your money where your values are, give us a call. We can help explain the benefits and limitations of socially responsible investing and can work with you to take your social or religious tenets into account when selecting investments that fit both your conscience and your long-term financial objectives. ●

***Source: Copyright 2007 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.**

**You should consider a fund's investment objectives, risks, and charges and expenses carefully before you invest. The fund's prospectus contains this and other information about the fund, and should be read carefully before investing. A copy of the prospectus of the fund you are interested in can be obtained by contacting the fund company or our office.**

can bequeath his share to children from a prior marriage. Mary won't automatically inherit John's interest.

But if they hold their assets as joint tenants or tenants by the entirety, the surviving spouse becomes the sole owner of everything the couple owned together. It won't matter that John's will names his children as beneficiaries; if he dies first, the title documents will govern, and Mary will decide how assets are divided when she dies.

**Other considerations.** Owning assets separately is especially important if your combined net worth is at or above the IRS estate tax exemption—$2 million in 2008 and $3.5 million in 2009. Once you approach those levels, it pays to consider ways to separate assets. Also, since joint-tenancy assets can be taken by creditors or lost in lawsuits once an individual's assets are exhausted, doctors or others who can be sued easily will want at least half of their assets in their spouse's name.

Deciding how to hold title to your assets is not a simple decision, as state laws differ and each situation is unique. We can work with your attorney to help decide what's best for you and your spouse. ●

# How To Tap College Savings Vehicles

Saving for your children's education is essential, of course. But even if you've done a great job, you still face crucial decisions about how and when to tap various savings vehicles. The wrong move could cost you a chance at financial aid or a tax credit or deduction.

If your family may qualify for financial aid (check out www.finaid.com to gauge your chances), spend money in your child's name first. Financial aid formulas expect students to contribute 35% of their net worth annually toward college costs, while parents must spend just 5.6% of assets each year. The more money in your child's name, the less you can expect in financial aid. So raid the Coverdell Education Savings Account (formerly the Education IRA) and any custodial accounts first, because they're held in the student's name, while Section 529 college savings plans are considered parental assets.

Also think about the timing of withdrawals from college savings. For example, qualified 529 distributions are considered income to the student, even though they're not taxed, and could reduce the amount of future financial aid. "If you didn't qualify for aid in your child's first year but think you could qualify in the second because of an employment change, say, or because another child is entering college, you might not want to take a 529 distribution in the freshman year," suggests Raymond Lowe of College Money (www.collegemoney.com). "Instead, you could do your best to qualify now, then use 529 distributions later."

Finally, you need to determine how to use the federal government's education tax credits and deduction. That depends on college expenses and your income tax situation.

For 2008, the Hope Scholarship credit is worth up to $1,800 per student for qualified tuition and fees. You can claim this twice, but only in a student's first two years of post-secondary education.

The lifetime learning credit is worth up to $2,000 per year, refunding 20% of the first $10,000 you spend. You can take the credit for every year your dependent is in school except when you use the Hope credit for the same student.

Currently, if you take neither the Hope nor lifetime learning credits, you get an "above-the-line" deduction on your 1040 for up to $4,000 of post-secondary expenses.

For couples filing jointly, the Hope and lifetime learning credits begin phasing out when modified adjusted gross income (MAGI) hits $96,000 for 2008, disappearing when MAGI reaches $116,000. Cut those figures in half if you're single. For the tuition and fees deduction, the MAGI ceiling is $130,000 for couples, $65,000 for singles. A $2,000 deduction is available for a MAGI up to $160,000 for joint filers; $70,000 for singles.

You can claim the Hope or lifetime learning credits in the same year you take tax-free distributions from a 529 or Coverdell account, but only if those withdrawals don't go to pay the expenses for which credits are claimed. The deduction can be taken for expenses paid with contributions, but not earnings, withdrawn from a 529 plan. ●

---

## Housing Prices Dropped?

*(Continued from page 1)*

slow recovery.

The 20-city composite index peaked in July 2006 at 206.52, after rising steadily from the yardstick's initial value of 100 in January 2000. In April 2008, the 20-city composite stood at 169.85, down 17.8% from its peak—though still showing a 70% gain in prices nationally since the beginning of the decade.

Home prices are likely to continue to fall at least through the third quarter of 2008. With the U.S. economy slumping, fewer potential buyers will enter the market, and foreclosed properties will add to the large inventory of unsold homes. In many areas, there are now triple the normal number of houses on the market.

Charlotte and other cities in which homes have kept much of their value have benefited from growth in high-paying jobs. More people in those areas can afford to buy houses, and fewer were caught in the subprime mess. These regions also saw less activity from real estate speculators, who sent prices into overdrive in Las Vegas and other "hot" markets.

The Case-Shiller indices—developed in the 1980s by Yale University economist Robert Shiller, author of Irrational Exuberance, and Wellesley College economist Karl Case—have become the gold standard for economists and investors seeking to monitor the real estate market. Case and Shiller developed the "repeat sales pricing technique," which tracks the prices of specific single-family homes through local records. On resale, the new price is matched to the first price of each home—the two data points comprise a "sale pair"—and all sale pairs in a region are aggregated into one index, with adjustments for foreclosures, sales between family members, suspected data errors, and even changes in quality due to remodeling, additions, or neglect.

Some investors use financial instruments based on the Case-Shiller indices to hedge their investments in real estate. But with such steep recent declines, buying opportunities are beginning to present themselves. If you bought your house near the market's peak and are concerned about the continuing drop in prices, or if you're thinking of buying now to catch a housing market rebound, we can help you evaluate your options. ●

**Horace C. Gordon, IV, CPA/PFS, CFP®  Gordon & Associates Financial Advisors, Inc.  2907 W. Bay to Bay Blvd, Suite 104B, Tampa FL 33629**
**Phone: (813) 289-9877  Fax: (813) 289-9878  email: hgordon4@gafainc.com**

Articles are contributed by a professional journalist retained by Gordon & Associates Financial Advisors, Inc. Information provided is of a general nature and is not intended as individual-specific advice.

©2008 API