

Dollars *and* Sense

March 2006

A Publication from Western Members' Financial Services



Useful Tips...

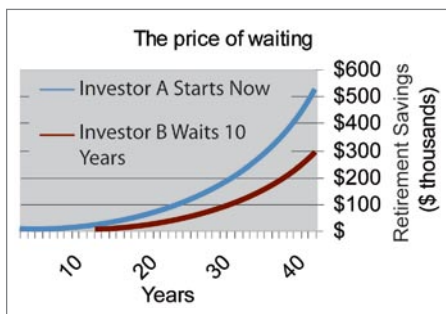
Start Now

It's easy to procrastinate when it comes to saving for retirement, especially when you are young and retirement is far away. Don't delay! The more time you have for your money to grow, the more money you will have at retirement.

To illustrate, consider what happens to two investors, assuming an 8% total return, compounded



monthly. At age 25, Investor A starts today and contributes \$150 per month. Investor B waits 10 years, but then contributes \$200 per month to catch up. Over a 40-year span, both contribute the same amount to their retirement, but Investor A ends up with \$523,000 for retirement, while Investor B has only \$298,000. The moral of the story is simple; start saving now: delaying will cost you.



Taxes and Mutual Funds

by Carmen Johnson

Taxes and mutual fund efficiency usually don't go together, but there are several ways to keep the taxes your mutual funds generate to a minimum.

Mutual fund investments fall into two categories: those that generate taxes on distributed income and gains, and those that don't. The latter group consists primarily of qualified retirement accounts like IRA and 401(k) plans. The returns on these accounts are tax-deferred until the investor takes distributions from the plan. In contrast, the income and realized gains in taxable accounts are subject to income tax the year they occur.



Capital Gains Distributions

Profits realized by mutual funds are aggregated throughout the year, and any gains – minus losses – are distributed to shareholders, usually at the end of the year. When a fund manager sells appreciated securities, shareholders must pay taxes on any capital gains produced. In general, short-term gains are taxed at ordinary income tax rates while long-term capital gains are taxed at lower tax rates depending on how long the mutual fund owned the security.

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Investing Basics

by Hansen Champlin

My advice to any investor is to diversify your investments, rebalance periodically, and have discipline. Following this advice won't guarantee you a profit, and sometimes won't be easy, but it will help you avoid some common pitfalls.

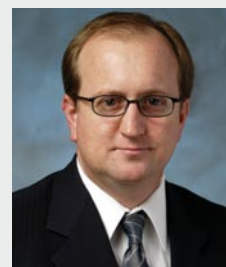
1. Diversify

In a given year some investment classes will outperform others. The problem, of course, is that we don't know which classes will be the winners and which will not. The solution is to diversify and own some of everything. Develop an asset allocation model that meets your objectives and stick with it. This will help you avoid the pitfall of focusing on last year's winners and missing the top performers of this year.

2. Rebalance

Over time your higher performing investments will outgrow your lower performing investments. Periodically rebalance your portfolio to match your asset allocation plan. This will force you to sell a portion of those investments that have recently been performing well to purchase investments whose recent performance has not been as strong. This helps you avoid too much concentration in any one type of asset.

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Taxes and Mutual Funds

continued

Income Distributions

Mutual funds must distribute any income they earn from stocks or bonds. Investors are responsible for paying taxes on dividends and interest from the securities held in their funds. The income is taxed according to each investor's federal income tax rate. The higher the bracket, the more they will pay in taxes on earned income from the fund.

How To Minimize Your Mutual Fund Taxes

Mutual fund investors are becoming more aware that tax management can be an important contributor to reaching their long-term investment goals. There are ways to keep taxes down. Consider putting mutual funds that frequently make distributions into tax-deferred accounts, such as IRA or 401(k) plans. Then consider mutual funds with low turnover rates for taxable accounts. The less a mutual fund trades, the lower your taxes will be. You may want to consider index funds for this reason. Index funds are mutual funds that are not actively managed but linked to stock indexes. They rarely trade securities and are generally known for their tax efficiency.

Most mutual fund companies now offer tax-managed funds. Tax-managed funds employ a number of investment techniques and strategies toward the objective of long-term, after-tax returns. These funds take tax considerations into account in all trading decisions – avoiding short-term gains and stocks that pay dividends. If taxes are a primary concern, consider avoiding income-generating funds, such as bonds. However, municipal bond funds are usually tax-exempt. For taxpayers, meeting financial goals require the use of tax-efficient strategies. Whether the goal is a comfortable retirement, college for children, or purchasing a new home, the money available to spend will be the returns on the investments after taxes.

*Carmen Johnson, Financial Consultant
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Investing Basics

continued

3. Discipline

The phrase "past performance is no guarantee of future results" has been seen by most investors, and should be taken seriously. Human nature works against us when it comes to investing. It is extremely tempting to jump into investments that are on an upswing. Conversely, we are reluctant to invest in securities that have been declining in value and may miss opportunities. The problem with this, of course, is that things change. Investing with discipline will help you avoid the pitfall of missing opportunities by "following the herd".

In short, develop a plan and follow it.

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Money Matters

IRA Contribution Limits

Tax Year	Age 49 & below	Age 50 & over
2005	\$4,000	\$4,500
2006	\$4,000	\$5,000

401(k), 403(b), & 457 Plan Contribution Limits

Tax Year	Age 49 & below	Age 50 & over
2005	\$14,000	\$18,000
2006	\$15,000	\$20,000

Contact Info

We invite you to schedule a free consultation to learn how we can serve your individual financial and investment needs. Please contact us to set up an appointment.

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Email: Investments@WesternMFS.com

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