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Johnston Investment Counsel

Gregory A. Johnston, CFA,
CFP, QPFC, AIF
President & Chief
Investment Officer
331 Fulton
Suite 429
Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com

A Small Business Plan for Uncertain Times

It's official: these are hard financial times. Many small business owners are feeling the pinch, and you may be one of them. Here are some tips to help you swim against the tide and help you keep your head above water.

Review your business plan

Your business plan represents the roadmap your company is following. Consider reviewing it as if through the eyes of someone new to the area. Is it still the best possible route to where you want to go, or should you consider some change in direction? It may be valuable to create an advisory team from your circle of business contacts to help you with this task.

Keep current and vigilant

When the times are changing, you need current and accurate financial information on which to base your decisions. Keep a close eye on all your expenses. If you must cut your expenses, consider reducing expenditures only on goods or services that are no longer profitable. And try not to slash all of your advertising budget. If people don't know you're there, before long you may not be.

Be careful about the urge to cut your prices without exploring alternatives or without adequate justification. Doing so might lead to a temporary swell in your sales volume, but it will also undercut your margins, and may dilute your brand name. You might also want to continue spending money on development. The hard times will eventually pass, and when they do you'll want to have new items or services for your customers or clients to buy.

Examine your revenue stream, and think about ways to pursue any delinquent accounts receivable. Be careful of the credit terms you extend to your customers, especially new ones; if they can't meet their obligations, you might fall behind on your own. Try to maintain a healthy cash flow, and create a

cash reserve to cover times when your accounts receivable may be slow.

Finally, meet with your banker. Try to keep a line of credit available to hedge against potentially declining revenues. Perhaps you're thinking you should defer making the capital improvements you were planning. However, while interest rates are low, consider if this would be a good time to lock in financing for them.

Work with me here

Your existing customer base may be your best prospects for new business, so remain in close contact with them. Determine their needs and seek to help them meet those needs. Consider offering them discounts in exchange for advance payment or long-term contracts with you. And always provide them with excellent customer service. In return, they may refer other potential customers or clients to you.

By the same token, work closely with your own suppliers. Agree to long-term contracts in exchange for a fixed price, if doing so would be beneficial to you. Consider seeking discounts if you pay in cash, or asking for longer payment terms if you are willing to pay full price. Be willing to contract for supplies at the regular price if they will give you great discounts on any of their own overstock that you might need. If you are open about your needs with each other, you might be able to create win-win situations for you both.

Value your employees

You no doubt have good people working for you, and they are a valuable part of what has made your business thrive. They have a stake in your business, too. Try to find ways (even if only simple gestures) to thank them for jobs well done. Look for ways to boost productivity, and reward those employees who meet the challenge of becoming even more productive.



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Investing in a Low Interest Rate Environment

Low interest rates create a dilemma. Do you accept a low return because you feel you must protect your principal? Or do you take on greater investment risk in order to try for a higher return? In balancing those two concerns, here are some factors to think about.

Consider laddering your CDs

When yields on Treasury bonds began dropping last year, many investors were attracted to certificates of deposit (CDs) offered by banks that needed to attract capital. However, interest rates won't stay low forever, and at some point you may want access to your money before a CD matures. One way to achieve higher rates while retaining flexibility to adjust your strategy over time is to ladder CDs. Laddering involves investing in CDs with varying maturity dates. As the shorter-term CDs mature, you can reinvest in one with a longer term and higher rate. Over time, laddering can give you both the higher rates typically offered by longer-term CDs and the ability to adjust as interest rates change.

Example: Susan wants to invest \$60,000 in CDs. She puts \$20,000 in a six-month CD that pays 2.6%, another \$20,000 in a three-year CD that pays 3%, and the final \$20,000 in a five-year CD that pays 3.5%. When the six-month CD matures, she reinvests that money in another five-year CD. When her two-year CD matures, she reinvests it in still another five-year CD. At that point, funds from a maturing CD will be available roughly every other year, but will earn the higher five-year rate. If rates are lower when a CD matures, she has the option of investing elsewhere. (This is a hypothetical example and doesn't represent the results of any specific investment.)

Pay attention to expenses

Low returns magnify the impact of high investing expenses. Let's say a mutual fund has an expense ratio of 1.00, meaning that 1% of its net asset value each year is used to pay operating expenses such as management and marketing fees. That 1% represents a bigger relative bite out of your return when the fund is earning 3% than it does if it's earning 10%. At the higher number, you're losing only about 10% of your return; at 3%, almost a third of your return goes to expenses. Before investing in a mutual fund, carefully consider its fees and expenses as well as its investment objective and risks, which can be found in the prospectus available from the fund. Read the prospectus carefully before investing. If you

prefer individual stocks, keep an eye on trading costs.

Think about your real return

Low interest rates may not be quite as problematic as they seem. Even if you're earning a low interest rate, your real return might not suffer too much if inflation is also low. Real return represents what your money earns once the impact of inflation is taken into account. With an annual inflation rate of 0.1%--the December 2008 Consumer Price Index (CPI) figure--a bond that pays 3% would produce the same real return as a bond that pays 5% when annual inflation is running at 2.1%.

Compare interest rate and yield spreads

When market instability drove many investors to the safety of Treasury bonds, their prices rose and yields fell. As a result, the spreads between Treasury yields and those of corporates and municipals have been relatively high over the last year because non-Treasury bonds have to offer higher yields to compensate for investors' anxiety about the safety of their principal and possibility of default.



Consider small changes

You may not need to remake your portfolio completely to seek a higher return. For example, if you're in Treasuries, you could move part of that money to municipal bonds, which may involve greater risk of default but whose net returns are boosted by their exemption from federal income tax. Or you could shift a portion of your stock allocation to dividend-oriented stocks and ETFs, or preferred stock.

Look for buying or selling opportunities

Interest rates also can be used to help evaluate equities. Some analysts like to determine the relative value of the stock market using the so-called Fed market valuation model. (Though not officially endorsed by the Federal Reserve Board, the method evolved based on a 1997 Fed report.) The model compares the earnings yield on the S&P 500 to the 10-year Treasury bond's yield. If the S&P's yield is higher than the T-bond's, the model considers the market undervalued relative to bonds. If the Treasury yield is higher, the market is overvalued. However, this is only one of many valuation models and shouldn't be the sole factor in your decision.

Term	Rate
10 Year	4.375
30 Year	

Other visible text includes: 'Federal Funds Target', 'U.S. Prime', and 'MARKETS INC.'.

Don't stop at yield

If you're tempted to seek a higher return, don't forget that yield alone shouldn't be your only criterion. In reaching for additional yield, you may be taking on additional risk. Also, if and when interest rates rise, the change may affect a bond's market value unless held to maturity. Don't hesitate to get expert help to assess whether you can increase your return without taking on more risk than you can afford.

Retiring Early? Don't Forget about Health Insurance

Thinking about retiring early? As part of the decision, you've got to calculate whether you'll have enough retirement income to meet your needs. While adding up the costs of customary living expenses, utilities, and an occasional vacation, don't forget to include another important retirement expense: health insurance.

We're living longer and health-care costs are surging. Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance. And, unless you're lucky, you probably can't rely on your former employer for coverage, since few companies offer retiree health-care benefits. Underestimating the impact of medical costs could significantly hamper your plans for a comfortable retirement.

What are some of your options?

Check out your working spouse's insurance to see if you can be added to his or her policy. But adding you as an insured likely will increase the premium cost to your spouse.

Ask your employer if it's possible to remain covered under its group plan. Usually, plans don't extend coverage beyond active employees and their dependents. But, it's sometimes possible to remain covered, though you'll probably have to reimburse your employer for the cost to keep you on the plan.

COBRA may be another option allowing you to remain covered under your employer's group health plan. If your retirement causes you to lose your health insurance, you can remain on your employer's plan for a maximum of 18 months (with some exceptions). You'll have to pay the entire premium amount, plus a possible 2% administrative fee. And keep in mind that employers with fewer than 20 employees don't have to offer COBRA, so it might not be available.

Shop for individual coverage

If you're going to buy an individual health insurance policy, you may find the premium cost to be quite steep, especially if you're also insuring your spouse and dependents. And there's no guarantee you'll even receive coverage. In most states, insurance companies can examine your health history

and medical records (called underwriting) in order to determine whether you qualify for insurance and at what cost. However, a few states do not allow underwriting for health insurance plans.

Saving a few premium pennies

Here are a few suggestions that might help you lower the cost of individual health insurance. Group rates are usually less expensive, so look for health insurance plans offered by trade associations or churches. Be aware that while coverage might cost less, you may have to pay a membership or association fee to the group offering the coverage. Also, the plan may have high deductibles and co-payments, and the benefits and options, including your choice of physicians and medical facilities, may be limited.

To lower premium costs, consider increasing your deductibles. By shouldering the cost of any treatment you might need, you'll decrease your premium expense.

Also, in states that allow underwriting, the cost of an individual policy of health insurance is based, in part, on your age and health. A preexisting medical condition could affect your premium or even cause you to be denied coverage. So before applying for new health insurance, consider getting in better shape, especially if you think you're a little overweight. Smoking is also a ticket to a higher premium, so quit if you can. Since the insurance company will examine your medical records, review them first with your doctor to remove any inaccuracies, and to clarify the reasons for examinations or treatments.

Finally, if you're denied coverage because of poor health, don't despair; you may still be able to get insurance if your state sponsors a high risk pool. If your state does, you can't be denied coverage, so long as you can show you aren't able to get insurance elsewhere. Be aware, however, that coverage might not be as comprehensive as other options, you may have a six-month or longer waiting period, and not all states offer this type of health insurance.

Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance.



Retiree health benefits

In 2008, only 31% of large employers (200 or more employees) offered retiree health benefits, while a mere 4% of small employers (3 to 199 employees) offered retiree health benefits.

Source: Employer Health Benefits 2008 Annual Survey. Kaiser Family Foundation.





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Gregory A. Johnston, CFA,
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Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com

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Ask the Experts



Can I open a 529 account in anticipation of my future grandchild?

No, not if you intend to name your future grandchild as beneficiary. A valid 529 beneficiary has to have a Social Security number, so it's not possible to name a child who hasn't been born. But there is a way to open a 529 account that eventually can be turned over to a future grandchild.

Your first step is to open a 529 account and name a beneficiary who is a "family member" of your future grandchild. Then, when your grandchild is born, you, as account owner, can change the beneficiary to your grandchild. All 529 plans have mechanisms in place for changing the beneficiary.

According to IRS Publication 970, Tax Benefits for Education, there are no income tax consequences if the beneficiary of a 529 plan account is changed to a "family member" of the original beneficiary. This includes the beneficiary's (1) spouse, (2) son, daughter, stepchild, foster child, adopted child or

descendant of any of them, (3) sibling or step-sibling, (4) parent or ancestor of either, (5) step-parent, (6) niece or nephew, (7) aunt or uncle, (8) daughter-in-law, son-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law, (9) the spouse of any person listed, and (10) first cousin. Changing the beneficiary could have gift tax consequences, though.

However, carefully check the details of any 529 plan you're considering before you name the initial beneficiary. Some plans impose age restrictions on the beneficiary, such as requiring that the beneficiary be under age 21. Such a restriction could pose a problem if you intend to name your adult son or daughter as the initial beneficiary.

Other plans may have rules that indirectly impact who you can choose as your initial beneficiary, such as a requirement that the funds in the account be spent within 10 years of when the initial beneficiary would be expected to enter college. You don't want to be surprised by a technicality.

Can more than one 529 plan account be opened for the same beneficiary?



Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, provided you do so under different 529 plans.

For example, you could open three 529 college savings plan accounts for your daughter: one in State A, one in State B, and one in State C. Similarly, you could open accounts in States A and B for your daughter, and another relative could open an account for her in State C. Or, you could open a 529 college savings plan account and a 529 prepaid tuition plan account for your daughter in State A. But you can't open two college savings plan accounts (or two prepaid tuition plan accounts) in State A for the same beneficiary.

If you do open multiple 529 accounts for the same beneficiary, keep in mind that each plan has its own contribution limit, and contributions can't be made after the limit is reached.

However, some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) can't exceed the current year's maximum contribution amount.

Also, keep in mind that each 529 plan will have its own investment options and flexibility, contribution rules, ownership and beneficiary designation rules, costs and fees, and ability to perform account management tasks online.

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.