



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

Planning for a Career Change



A higher salary. More job security. Doing what you love. Fewer hours. More travel. Changing careers can be rewarding for many reasons, but career transitions don't always go smoothly. Your career shift may take longer than

expected, or you may find yourself temporarily out of work if you need to go back to school or can't immediately find a job. Planning for the financial impact can make the transition easier.

Do your homework

First, make sure that you clearly understand the steps involved in a career move, including the financial and personal consequences. For example, how long will it take you to transition from one career to the next? What are the job prospects in your new field? How will changing careers affect your income and expenses in the short and long term? Will you need additional education or training? Will your new career require more or fewer hours? Will you need to move to a different city or state? Is your spouse/partner on board?

Next, prepare a realistic budget and timeline for achieving your career goals. If you haven't already done so, save up an emergency cash reserve that you can rely on, if necessary, during your career transition. It's also a good time to reduce outstanding debt by paying off credit cards and loans.

And here's another suggestion. Assuming it's possible to do so, keep working in your current job while you're taking steps to prepare for your new career. Having a stable source of income and benefits can make the planning process much less stressful.

Hands off your retirement savings

Planning ahead can also help protect your retirement savings. When confronted with new expenses or a temporary need for cash, many people tend to look at their retirement savings as an easy source of funds. But raiding your retirement savings, whether for the sake of convenience, to raise capital for a business you're starting, or to satisfy a short-term cash

crunch, may substantially limit your options in the future. Although you may think you'll be able to make up the difference in your retirement account later--especially if your new career offers a higher salary--that may be easier said than done. In addition, you may owe income taxes and penalties for accessing your retirement funds early.

Consult others for advice

When planning a career move, consider talking to people who will understand some of the hurdles you'll face when changing professions or shifting to a new industry or job. This may include a career counselor, a small business representative, a graduate school professor, or an individual who currently holds a job in your desired field. A financial professional can also help you work through the economics of a career move and recommend steps to protect your finances.

Going back to school

Before you start applying to graduate school, ask yourself whether your investment will be worthwhile. Will you be more marketable after getting your degree? Will you need to take out substantial loans?

In your search for tuition money, look first to your current employer. The first \$5,250 of employer-provided education assistance is exempt from federal income tax. But read the fine print: some employers may require you to choose a course of study related to your current position, maintain a minimum grade point average, and/or continue to work at the company for a certain period of time after you graduate. Also, investigate whether you can continue to work at your company while you attend school part-time.

Students attending graduate school on at least a half-time basis are eligible for Uncle Sam's three major student loans--the Stafford Loan, Perkins Loan, and graduate PLUS Loan. Also, at tax time, you might qualify for certain tax benefits, such as the Lifetime Learning credit--see IRS Publication 970 for more information.

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LIFE THE WAY YOU PLANNED IT.

Investing in a Low Interest Rate Environment



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.

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? Here are some factors to consider in trying to balance those two concerns.

Consider laddering CDs

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

For example, let's say Harriet Hypothetical wants to invest \$60,000 in CDs. She might put \$20,000 in a one-year CD that pays 0.5%, another \$20,000 in a three-year CD that pays 1.25%, and the final \$20,000 in a five-year CD that pays 1.75%. When the one-year CD matures, she reinvests that money in another five-year CD. When her three-year CD matures, she reinvests it in still another five-year CD. At that point, funds from a maturing CD will be available every year or two, but will earn the higher five-year rate. If rates are lower when a CD matures, she has the option of investing elsewhere.

Pay attention to costs

Low returns magnify the impact of high investing expenses and taxes. 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 much bigger bite out of your return when the fund is earning 3% than it does if a fund is 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. If you prefer individual stocks, keep an eye on trading costs.

Note: *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.*

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 inflation is taken into account. With an annual inflation rate of 2.6%--the average over the past 20 years based on the Consumer Price Index--a bond that pays 3.5% would produce the same real return as a bond that pays 4.5% when inflation is 3.6% a year.

Compare interest rate and yield spreads

In general, long-term bonds pay a higher interest rate than bonds with a shorter term. However, the difference between long-term and short-term rates can change as investors assess changing economic conditions. For example, when it seems likely that interest rates will rise in the near future, investors often are reluctant to tie up their money in longer-dated maturities and gravitate to short-term debt. As short-term demand rises, the difference between the interest rates paid by different maturities can also increase.

The yields of various types of bonds can also change relative to one another. For example, when demand pushed U.S. Treasury yields to new lows in 2011, it widened the gap between Treasuries and corporate bonds. Such differences can create opportunities in one type of bond versus another.

Consider small changes

Your portfolio may not need a complete remake to seek a higher return. For example, if you're in Treasuries, you could move a portion of that money to municipal bonds. That might involve greater risk of default, but net returns might be boosted by the munis' exemption from federal income tax. Or a portion of your stock allocation could be shifted to dividend-oriented stocks, exchange-traded funds, 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 seems to have 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, the market is considered undervalued. However, this is only one of many valuation models and shouldn't be the sole factor in an investing decision.



Seniors Are Often Targets of Scams



Here are a few things that may help you protect an elderly relative from being victimized by a scam:

- **Become familiar with your loved one's finances**
- **Recommend that they have any regular income directly deposited to their bank**
- **Suggest that they consult you or someone else they trust before buying any service or product over the phone, online, or via the mail**



Anyone can fall victim to a financial scam, but seniors tend to be particularly popular targets. Frequently, fraud perpetrated against seniors is not reported until long after the scam has occurred, usually because victims don't realize they have been scammed or know where to report the scam, or because victims are too embarrassed to admit that they have been taken. Nevertheless, it's important for seniors and their family members to be aware of the signs that may point to a fraudulent scheme, and know what steps can be taken to prevent becoming victims of a scam.

Why seniors?

Seniors are a popular target for scammers for a number of reasons:

- Seniors are more likely to own their own homes, have a nest egg that's liquid and easily accessible, and have excellent credit.
- Today's generation of seniors were raised to be kind, helpful, trusting, and polite--perfect qualities for a scammer to exploit, knowing that it's hard for some seniors to simply say "no."
- Age has a tendency to affect memory, and scammers count on seniors not being able to remember important details when reporting a scam to the authorities.

What to look for

Scams targeting seniors often occur in one of three ways--through the Internet, on the telephone, or in person. And just when you think you've heard of all the possible scams out there, scammers will come up with another scheme intended to victimize seniors. The FBI website (www.fbi.gov) has a section dedicated to fraud targeting seniors. The site describes a number of schemes that have been discovered. It's a good idea to check this site regularly to keep updated on new scams. Here are some of the more popular scams that have victimized seniors.

Scams related to health care

There are a number of scams that focus on the new health-care law, health insurance for seniors, and Medicare. These scams may focus on "Obamacare" benefits, claiming that there is a "limited enrollment period," great insurance coverage including drug benefits for a low monthly cost, free medical equipment, low-cost drugs, or free medical tests given at nonmedical facilities like health clubs or shopping malls. To be on the safe side, don't sign a blank insurance claim form, since your insurance company may be billed for items you never received; generally don't do business

over the phone or in person with a door-to-door salesman for medical services or benefits; and call your insurance carrier to be sure that what you're supposed to be getting "free of charge" is actually covered by your insurance.

Telemarketing scams

We've all been subjected to telemarketing, and it isn't always a bad thing. Some products and services are legitimate. However, telemarketing also serves as a way to scam people, especially seniors. Some warning signs that should prompt you to decline the offer include being told you "must act now or the offer won't be good," any offer that seems to be free (except that you have to pay for shipping and handling or administrative fees), the requirement that you provide your credit or debit card information or bank account number, and the suggestion that you "leave a check taped to your front door for a courier to pick up." In any case, if the caller tells you it isn't necessary to check out their company or consult family members or your lawyer, it's probably best just to decline altogether.

Internet and e-mail scams

Seniors' use of the Internet and e-mail is increasing daily, and so are Internet scams targeting seniors. Many such scams are based on getting credit or debit card information for services or merchandise that is never delivered. If you're going to give out this information online, try to ensure that the site is secure and reputable. Depending on the Web browser you use, you may see a padlock icon or some other indication to symbolize that there's a higher level of security to send important personal information, but it's not a guarantee that the site is secure. Also, check out the source of the merchandise or service before buying. It should have a physical address and phone number(s) that actually work.

In another type of Internet scam, people send you an e-mail claiming to be in possession of large sums of money and need you to help them open a U.S. bank account. Often, they ask that you "seed" the account with your own money, and in return, they'll pay you handsomely. Don't believe this promise and don't respond to the e-mail.

Bottom line

In short, as we've all heard before, if it sounds too good to be true, it probably is. If you fall victim to a scam, in addition to reporting it to your local police, you can report it to the FBI through their electronic tip line found at www.fbi.gov.



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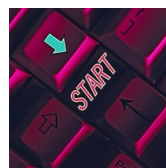
Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
331 Fulton
Suite 429
Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com

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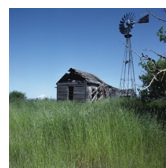


What's a self-directed IRA?

A self-directed IRA isn't a different type of IRA. Rather, the term refers to any individual retirement account (traditional or Roth) that gives you more investment control by allowing you to direct your IRA assets into nontraditional investments.

For example, in addition to the usual IRA mainstays (stocks, bonds, mutual funds, and CDs), a self-directed IRA might invest in real estate, limited partnership interests, or anything else the law (and your IRA trustee/custodian) allows. In fact, the only investment you can't have in your IRA is life insurance. (Collectibles—for example, artwork, stamps, wine, and antiques—aren't prohibited, but if your IRA purchases these items, you could suffer adverse tax consequences.)

To get started, you'll need to find a trustee or custodian that specializes in self-directed IRAs. Make sure you understand the expenses involved—some trustees charge transaction fees and/or asset-based fees, depending on the particular investment.



Can my self-directed IRA invest in real estate?

Yes. Your IRA can invest in virtually any form of real estate. That includes direct ownership in property as well as indirect ownership through limited partnership interests, REITs, and mortgage obligations. Your IRA can buy a beach house, a multi-family home, commercial property, raw land, condos, an island—almost anything. Your IRA can be the sole owner of the real estate, or a partial owner with others.

Your IRA can even borrow money to purchase real estate. However, it may be difficult to find a bank that will lend money to your IRA (since you can't personally guarantee the note). Borrowing may also cause some of the income (or sales proceeds) from the property to be taxed currently to your IRA under the UBIT (unrelated business income tax) rules.

When you invest in real estate, you'll also need to pay particular attention to the prohibited transaction rules. You can't, for example, sell property you already own to your IRA. And neither you nor certain family members can use real estate while it's owned by your IRA. That sort of self-dealing can result in your entire IRA becoming taxable to you.

You also need to be aware of the prohibited transaction rules. These rules are designed to make sure that only your IRA, and not you (or your immediate family), benefits from your IRA transactions. For example, you are prohibited from buying investments from, or selling investments to, your IRA. If you violate these rules, your account will cease to be treated as an IRA, with potentially devastating tax consequences.

Finally, you need to understand the UBIT (unrelated business income tax) rules. Even though IRA investments usually grow tax deferred (or even potentially tax free in the case of a Roth IRA), if your IRA conducts certain business activities or has debt-financed income, then your IRA could be taxed currently on all or part of the income generated.

Just because a self-directed IRA allows you to choose certain investments, it doesn't mean that you should. Some investment choices aren't suitable for all investors. Your financial professional can help you weigh the benefits and risks of a self-directed IRA, and help you determine if it's the right choice for you.

Keep in mind that when you hold real estate in a traditional IRA, you'll have to pay tax at ordinary income rates when your account is ultimately paid out to you—whether you receive cash or the property itself. Qualified distributions from a self-directed Roth IRA, on the other hand, are free from federal income tax, which may make the Roth IRA an attractive vehicle for real estate ownership.

Finally, note that you'll need to pay any expenses related to your real estate investment out of your IRA, so make sure it will have enough cash each year to cover any real estate taxes, legal fees, repairs, insurance, and other costs.

Certain risks are involved in investing in real estate. Changes in real estate values and economic downturns can have a significant negative effect on real estate investments, including REITs, mutual funds, and ETFs. Rising interest rates (which can impact the cost of borrowing), declines in real estate values in general, and other factors including property taxes, zoning laws, demographic changes, and natural disasters can all negatively impact the value of your investment property.



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