Spring Cleaning Meets Financial Planning

By Lynn Ballou, CFP, EA

Did you ever notice that tax time feels like the Great American version of spring cleaning? It's when we pull together all our documentation and report to the government what they mostly already know, and a few things that they don't. But it's also a wonderful opportunity to shine a light on what often lingers in the far, far back reaches of the filing cabinet and try to figure out why we own what we own, anyway!

If you are like so many of us, over the years you've accumulated quite the collection of bank accounts, IRAs, brokerage accounts, direct stock accounts and cash management accounts. In fact you may have three or four IRAs all with similar investment objectives, but at three or four different financial institutions. WHY??? By and large you are creating unnecessary work for yourself (and taking out a few trees that could live as well by reducing the number of 1099s and statements that you get each year!).

Remember in math class, how we learned to reduce fractions down to their simplest form? (Sure you do! Just like the show "Are You Smarter than a 5th Grader!) In your life there are many opportunities to reduce things down to a simpler form, and your investment accounts are no exception. Here's what to do:

1) Figure out what your investments are supposed to be doing for you! Then look at each one and see if it's performing appropriately.

2) Develop a plan for repositioning what isn't working anymore, keeping fees and tax implications in the forefront of your plan process.

3) Once you have determined what you want to keep, and what you want to reallocate elsewhere, find out if you can consolidate your accounts at one firm. For example, if you hold mutual funds directly at the fund companies, a few stocks on your own, and a cash account, most likely all of these can be combined into one brokerage account with your favorite firm and advisor.

4) Similarly, if you have been working for multiple employers over the years, you may have accumulated quite the collection of old 401(k) plans, some or all of which you could consolidate either into an IRA rollover account or move to your current employer's 401(k) plan.

Here are some key issues to keep in mind:

1) Use this consolidation time and clean up time to give yourself a very important annual financial health check up! There's some great software available for free on-line to allow you to do some preliminary work. And for a more in-depth and personal view, you'll want to work with your Financial Advisor to factor in your own individual goals and concerns.

2) Be sure to pay attention to titling issues: for example, you wouldn't want to combine your separate property or your children's assets into a community property account with your spouse. If you do that, you've accidentally retitled the assets, which causes all sorts of problems for you now, and later on.

3) Be sure that you aren't creating any unintended taxable events when you do your consolidation: for example, moving your IRA into your living trust account would create an instant taxable event. YIKES!

4) Maybe you have kept those old 401(k) plans because you can purchase a certain stock that you are fond of or mutual fund that you won't be able to take with you on a rollover. It's important to think things through to be sure you aren't getting rid of great investments inappropriately.

5) Work with an investment firm that tracks basis for you on your statements and on your 1099s. That will really make your life simpler at tax time!

If you get on this project now, while it's still fresh in your mind and you have things at your fingertips from preparing your taxes, you should easily be able to consolidate your investments down to their simplest form by the end of the year. Your reward? Next year you'll be MUCH less stressed than most of us during the Great American spring tax preparation fling!

Welcome to our new column covering all things Financial Planning! We hope every now and then to introduce and discuss a timely topic of wide interest and appeal. And, because we want this to be especially interesting to you, we'd love to hear any financial planning related questions you have. We'll try to answer as many as possible in future issues. Please send your questions to: lynn.ballou@lamorindaweekly.com.

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Lynn is also a Registered Principal and Branch Manager with Linsco/Private Ledger (LPL). As such, she is required by securities regulations to add the following information to this column: The opinions voiced in this material are for general information only and not intended to provide specific advice or recommendation for any individual. Securities offered through Linsco/Private Ledger, member NASD/SIPC.

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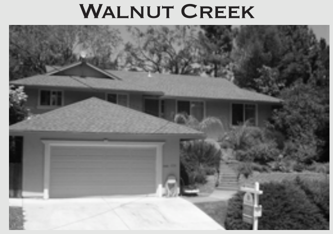

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