The Franklin Prosperity Report

'A PENNY SAVED IS A PENNY EARNED'

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Fire Your Mutual Fund Manager!

4 Ways Your Fund Investments May Be Costing You Profits, And What You Can Do About It

Traditionally portrayed as safe escapes from the risks of building a portfolio of individual stocks while reaping the benefits of professional money management, mutual funds are coming under renewed scrutiny even as their popularity increases.

In the United States alone, the number of modern mutual funds has grown from pre-1929 market crash levels of 19 open-ended funds and 700 closed-end funds to more than 10,000 funds today, vastly increasing investors' options — and complicating their investment decisions.

Despite the 2003 mutual fund scandals and the global financial crisis of 2008-2009, the mutual fund industry remains healthy and fund ownership continues to grow. However, certain changes in the industry and the investing environment itself have caused many professional money managers to advise their clients to focus more on other types of investments, such as index and exchange-traded funds (ETFs).

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The problem isn't that the concept of mutual funds is necessarily flawed. Pooling funds with other investors and creating diversity remain fiscally sound principles, provided that the investment is sensible and the costs of making it are reasonable.

The elemental difficulty is that fund companies and those who market and manage funds have goals that are different from those of individual investors, according to Ani D. Chitaley, founder and president of Investment Risk Management Systems Inc. who was senior vice president of Fidelity Investments for 11 years.

"Individual investors want good returns at low risk of loss, but the fund industry wants more assets under management to increase their revenue," Chitaley says. For investors, investment costs are guaranteed, but returns are not, he notes, because fees charged by fund companies, brokers, and financial planners are based on assets managed or traded, not on performance.

So how might your mutual fund investments be costing you hard-earned dollars? Here are four ways:

1. Most Mutual Funds Underperform the Market.

Performance measurement systems that the industry has adopted and the Securities and Exchange Commission supports are meaningless and misleading, Chitaley contends. What the industry needs instead, he says, are measurement systems that answer these basic questions that would be posed by any prudent investor:

- What return could be expected?
- What is the risk of loss?
- What is the likelihood of good performance in the future?

The answers to these questions as they apply to the funds you own may not be what you want to hear, says Pamela Yellen, author of The New York Times best-seller *Bank On Yourself: The Life-Changing Secret to Growing and Protecting Your Financial Future* (Vanguard Press, March 2010).

According to Yellen's research, an astounding 80 percent of all actively managed mutual funds underperform the overall market — and many do so with significantly more risk and volatility. Don't rely on an "average annual rate of return" reported by mutual fund companies, or on the government, your employer, or Wall Street for your financial security, Yellen warns. "The only person you can truly rely on — who has your best interests at heart — is you. Remember, Wall Street gets paid whether you win or lose."

Yellen points out that investors could earn a 25 percent "average annual return" for years, and still end up with the same amount with which they began. How is that possible, you ask?

Let's say you have $50,000 invested in a fund, and you get a 100 percent return in the first year, so now you have $100,000. In year two, you take a 50 percent drubbing, and now are back to $50,000.

"When you add the returns of the two years together (100 percent minus 50 percent = 50 percent) and divide by two years, you had a 25 percent average annual return," Yellen says.

But you still have only your original $50,000. "This could go on for decades, and you could still not make a dime," she says. "So, don't go by the fund's 'average annual return.' You should look at its 'average compound return' instead."

2. Your Mutual Fund Manager May Be a "Closet Indexer."

"Most mutual fund managers are what I call 'closet indexers,'" says Matthew Tuttle, president of Tuttle Wealth Management in White Plains, N.Y. Tuttle notes that a fund manager whose benchmark is the S&P 500 probably will mimic the benchmark while tweaking the fund just a bit.

For example, say the fund had 16 percent in technology stocks and 15 percent in financial stocks. A fund manager who likes technology better than financials might put 17 percent in tech and 13 percent in financials.

"If the manager's right, the fund will outperform the index by maybe a quarter of a percent," Tuttle observes. "If not, the fund will underperform by the same margin," effectively costing investors 1 to 1.5 percent for an index fund they could instead buy for a charge of 10 basis points (0.10 percent).

Also, mutual fund managers' fear of underperforming often leads to over-diversification, which Tuttle says is one of the reasons the average investor who buys mutual funds receives only mediocre returns over time.

3. Fees Can Cripple Your Investment Returns.

Compounding works against you on mutual fund costs, and those fees vary widely, Yellen says. "Annual fees amounting to only 1.5 percent will flush away nearly 39 percent of an investor's entire lifelong 401(k) savings," she contends, adding that those who choose and manage their own investments are every bit as vulnerable as those whose investment accounts are overseen by corporate investment managers.

Yellen notes that a typical 30-year-old employee could forfeit $64,000 or more in realized savings by age 65 simply by allowing a plan administrator to choose a fund with annual fees of 1.5 percent vs. 0.5 percent.

"Do your own due diligence," Yellen advises. "Remember that fund prospectuses don't always list all the fees, and understand how much even a 0.5 percent or higher fee can cost you over your lifetime."

Yellen also cautions that employees whose investments are largely in employer-matched and managed accounts to be especially alert. "Most people aren't aware that the government has given employers and plan fiduciaries protection from liability if they make costly, complex, and risky target-date funds the default investment, courtesy of the Pension Protection Act of 2006," she says.

4. Your Mutual Fund May Not Manage Cash Effectively.

Though another common criticism of mutual funds is that many hold too much in cash, Tuttle is more concerned about funds whose managers are unwilling to hold *enough* cash.

"A financial professional looking at a market that's just awful should hold cash rather than hold his nose and pick the best of the worst," he says, adding that the goal of great fund managers such as John Hussman of Hussman Funds, who notably pulled all of his investors' money out of the market before it tanked during the crisis, is to make and preserve capital, not to beat some meaningless benchmark. "The benchmark should be zero," says Tuttle. "Managers should be trying to get positive returns. Hussman gets that."

What Should You Do?
Here's How To Lower Your Investment Costs

There are a variety of things individuals can do to decrease their investing costs, says David Twibell, president of Wealth Management for Colorado Capital Bank.

One is to buy the individual stocks, which eliminates management fees. "There is a transaction cost, but that can be kept to a minimum," he

Your Employer Probably Doesn't Know Best

If you invest in an employer-sponsored 401(k) plan but haven't allocated your investments yourself, instead leaving it to the default choices of the company, you're almost surely making a mistake. You can't assume the investments employers have chosen are in the best interests of their employees.

"In most cases, you can opt out and invest your money elsewhere," says Pamela Yellen, author of *Bank On Yourself: The Life-Changing Secret to Growing and Protecting Your Financial Future*. "So, if you are going to put your hard-earned dollars in mutual funds, educate yourself." As part of that education, Yellen suggests that all mutual fund investors read Vanguard Mutual Fund Group founder John Bogle's *Common Sense on Mutual Funds*, which was updated in 2010.

says. (To reduce such costs, choose a low-price online brokerage such as www.Scottrade.com, www.TradeKing.com, or www.OptionsHouse.com.) "However, the problem with choosing your own stocks is that it's a lot of work. Not everybody has the time or desire to investigate individual securities the way they need to in order to be successful."

The next level would be exchange-traded funds (ETF) or an index fund, both of which can offer pretty wide diversification within an asset class, Twibell explains.

For investors aiming to diversify their portfolios who aren't quite sure how to do that with individual stocks, using a combination of ETFs and index funds can be a great option. The caveat, Twibell says, is that there's no outside manager making investment decisions for you, so if you buy an ETF that's a basket of S&P 500 stocks, you've got to understand that investment and decide how much exposure to any particular sector you want to have.

Twibell tends to prefer an ETF and/or index strategy to mutual funds, even if the mutual fund you're interested in is one of the better-managed ones, because of cost-effectiveness considerations.

"I don't necessarily steer people away from mutual funds because there are some that do a great job for a reasonable fee, but the majority of them don't do a particularly good job and they charge a lot of money for it," Twibell says. "They're essentially giving you index-like performance but charging you 125 basis points."

There are good mutual funds and bad ones, and the same is true for ETFs, he says. However, investors are fishing in the ETF market in a more lucrative way.

"ETF costs across the board are much lower than mutual funds, and there's more transparency as well," he explains. Also, with a mutual fund, you never know exactly what you own because they make changes every day."There are usually a lot fewer headaches with an ETF," Twibell says.

Investors still must do due diligence on ETFs. "All ETFs are not created equal, even if they sound like they are," Twibell cautions. "Most are cap-weighted, and you can wind up with a whole lot of shares of a comparatively few stocks, which may not be what you want."

Among those ETFs that provide equal allocations across the board, Twibell likes Rydex S&P Equal Weight Technology (symbol: RYT) and Rydex S&P Equal Weight Consumer Staples (RHS).

Investors also can get broader sector exposure in ETFs than in mutual funds, Twibell says. "We use PowerShares Water Resources Portfolio (PHO), an ETF that invests in the water industry," he says. "As far as I know, there's no mutual fund that invests only in the water industry, though some hedge funds do."

Twibell points out that individual investors don't necessarily need to hone their portfolio exposures to a drastic degree to gain exposure to a specific sector. "You can get the same exposure to copper by buying a metals mining ETF with a lot of volume, much better research and a longer track record than you can by buying a copper ETF, and good exposure to Malaysia by buying a Pacific Rim ETF that gives you exposure to more Asian countries," he advises.

Are There 'Good' Mutual Funds? In a Word, Yes

If you do want to invest in mutual funds despite their limitations, there are options you can consider. Twibell agrees with Chitaley that most mutual funds are more sales-oriented than performance-driven but admits there are exceptions. "If you do your due diligence, you can find relatively good mutual funds that have good performance records, but you have to do a lot of sifting to get to them," he says.

One fund Twibell especially likes is the Dodge & Cox International Stock Fund (DODFX), which has an expense ratio of around 50 basis points. "That's slightly more than you'll pay with an exchange-traded fund, (but) there are no 12-1 b fees or any gimmicky stuff," he observes. He also likes Fairholme Fund (FAIRX), which requires its managers to have "skin in the game" by buying in the same securities the fund comprises.

Manage Your Fund Investing Risk First

To help in your investment research, take a closer look at www.FundReveal.com, an online system devised by Ani D. Chitaley, founder and president of Investment Risk Management Systems Inc. It helps investors pinpoint funds that may provide higher returns at lower risk of loss.

FundReveal offers two levels of service: The basic level provides reports for up to 2,000 funds for free; a premium subscription provides more advanced analyses for an unlimited number of funds.

FundReveal lets investors compare the funds they hold against the entire U.S. mutual fund universe, highlighting annualized average return and risk, and see the performance measures for the funds they want to analyze, comparing annualized average return, risk, worst-case return, risk-return, and how funds performed in up-and-down markets.

"Most performance reports and rating systems are reiterations of past returns, with a fine print that past returns do not guarantee future returns," Chitaley says. "The focus is on total returns, which have no predictive power (because) risk of loss is never as explicitly stated as are past returns.

"The result," he adds, "is 'returns chasing' by investors and their eventual frustration when their savings evaporate in turbulent or down markets."

In addition, Chitaley points out that fund companies use ratings from Morningstar and Lipper primarily for advertising and image building, not for investment decision making. "Performance rating revenues come primarily from licensing to fund companies and intermediaries," he says. "Fund companies would rather have fuzzy performance measures than those that explicitly identify good or bad funds."

The only type of mutual funds Tuttle likes are tactical asset allocation funds such as Ivy Asset Strategy (WASAX), BlackRock Global Allocation A (MDLOX), PIMCO All Asset (PASAX), PIMCO All Asset All Authority (PAUAX), and Permanent Portfolio (PRPFX).

Tools That Can Help You Find Good Funds

Twibell and Chitaley offer some tools investors can use to help make wise fund investment decisions.

Twibell recommends www.gurufocus.com, which allows investors to track portfolio purchases of the world's top money managers, including such investing greats as Warren Buffett and Mario Gabelli. The site offers a free basic membership and a premium membership that costs $249 a year.

Twibell also likes Alpha Clone (www.alphaclone.com), which enables investors to take advantage of the collective intelligence of hundreds of the world's top hedge fund and mutual fund managers without paying their high fees by offering a look at more than 3,100 smart money portfolios backtested over 10 years.

The company offers individual investors the option to open Roth; SEP; traditional or rollover IRA accounts; and individual, joint, trust, custodial, business, or investment club accounts, for which it charges a minimum fee of $750 a year.

"You could create a strategy and then see if it worked with instant 10-year performance analysis," Twibell says. For example, you could simulate investing in Warren Buffett's Berkshire Hathaway's 10 largest holdings, then learn that this strategy outperformed the S&P 500 Total Return Index by 141 percent during the past 10 years.

"That type of research levels the playing field a little bit, and give investors who want to keep their costs low another tool to use and piggyback on the research of the top managers."

Of course, in addition to using these tools to improve your choices of mutual funds, you can also focus on other strategies, such as dividend investing, opening a self-directed IRA that allows investment in property and precious metals (bank and brokerage accounts do not), or subscribing to an advisory service or expert newsletter (such as this one or others offered through our sister website, www.MoneyNews.com) for long-term investing guidance.

Ben's Good Cents

"The Constitution only gives people the right to pursue happiness. You have to catch it yourself."

Investing

Overlooked Tax 'Tricks' to Stretch Your Stock Loss Write-Offs

Millions of Americans have sold stocks, mutual funds, exchange-traded funds (ETFs) or other assets at a loss this year, and are banking on their ability to deduct that loss on their taxes. Others have big loss carry-overs from 2008, and 2009 as well.

Taxpayers often have a rude awakening, however, when told they can write off only $3,000 a year under IRS rules. Worse still, the amount is the same for married couples and single tax filers alike and hasn't budged in more than 30 years. Many investors end up carrying losses forward to future years, when they may or may not be able to use them.

But most people don't realize that, instead of pushing losses to future years, you can use them now to offset gains on a wide range of other investments, says tax attorney Julian Block of Larchmont, N.Y.

Many Americans "forget that the tax code authorizes them to be resourceful when they incur capital losses," says Block, who is an expert on investment tax planning and writes on tax matters for the National Association of Individual Investors.

For example: Capital losses can be used to offset dollar-for-dollar any realized capital gains not only on stocks, bonds mutual funds, and ETFs, but also on other investments. "This opens up many possibilities, such as profits on sales of collectibles, vacation homes, undeveloped land, active farms, commercial property of all kinds and rental property," Block says.

What's more, "It doesn't matter if gains and losses are a mixture of short- and long-term; a capital loss can always be used to offset a capital gain," he says. Be sure to work with your tax accountant when handling your stock losses this year, and ask the right questions as your return is prepared.

The Smart Way to Take Your Retirement Distribution

If you're over 70, take note: Required minimum distributions (RMD) from non-ROTH IRAs and other retirement plans, which were waived in 2009, are back in 2010, which means that everyone born before July 1, 1939, is required to take a minimum distribution this year.

RMDs are calculated based on your age and the total amount you have in your plan. The distributions count as ordinary income. (NOTE: ROTH account holders are not subject to RMDs during their lifetimes, but the heirs of their accounts are.)

You have until April 1 of the year following the year you turn 70½ to take the RMD. But, if you wait until the year after you turn 70½, you must take two distributions that year — one by April 1 and another by Dec. 31. Going forward, you must take the RMD by Dec. 31.

“Most people think that there’s nothing you can do to lessen the tax impact of RMDs, but some planning moves can help certain individuals,” says Rebecca Pavese, CPA, manager of Palisades Hudson Financial Group’s national tax practice.

For example, Pavese advises that, if you had a bad year or big deductions — or if your tax rate will increase in 2011 — you should consider taking a large distribution this year. And, if you’re in an unusually low tax bracket in 2010 because you had lower income than usual or large deductions, you should consider taking more than the required minimum.

Also, if you own a business with a 2010 net operating loss, you might pay little or nothing in tax on an IRA distribution because the loss could offset it, Pavese says.

If Congress doesn’t extend the Bush tax cuts, which still hadn’t happened as *The Franklin Prosperity Report* went to press, “tax rates will increase next year,” she says. “That’s another good reason to think about taking out more this year,” although you might want to defer this decision until seeing what Congress ultimately decides.

Four Reasons a Roth Conversion May Not Be Right for You

Many higher-income Americans are still wondering whether to bite on one of the past year’s most touted opportunities — converting a traditional IRA to a Roth IRA, now that the income limits have been removed.

But one thing many retirement planning experts and financial firms selling Roth plans don’t always tell you is that Roth conversions aren’t for everyone. There are circumstances that can make converting to a Roth the wrong choice. Here are four reasons you might want to consider a partial conversion, a complete pass, or postponing any action:

Reason No. 1: It’s already too late. Contrary to what you may have heard, age makes a big difference in deciding on a Roth conversion. It easily can take 10 years or more of tax-free growth inside a Roth IRA to recoup the taxes you’ll pay to convert.

“We’ve run many different scenarios and in almost all cases, if someone is 58 years old or older, it just doesn’t make sense,” says Stephanie Ackler, a financial adviser with Wells Fargo.

Reason No. 2: Your tax bracket might drop significantly. One assumption making Roth IRAs appealing is that tax rates are going up. By converting, you pay at today's rate, and never again.

But some people whose income decreases greatly in retirement and who move from a high-tax state such as New York, California, New Jersey, or Oregon to a low-tax state such as Florida, Texas, or Nevada could see themselves drop to a far lower tax bracket, rendering the Roth advantage moot.

Reason No. 3: Your college-age kids need money. According to investment giant Fidelity, if you have children in or near college and are applying for financial aid, a Roth IRA conversion may have a negative impact. Because the amount converted is treated as income, it's included in the needs test on the federal financial aid filing and can raise a parent's expected financial contribution and reduce aid.

If requested, some universities may adjust their calculation to account for Roth IRA conversion income, but federal aid formulas do not. So if you're seeking financial aid, it may make sense to wait to convert until your children are out of college.

Reason No. 4: You can't afford the tax bite. The big hit upon converting to a Roth IRA is that you have to pay income tax on any money you move out of a traditional IRA. But you absolutely want to pay the taxes from non-IRA funds to avoid seriously depleting your retirement nest egg.

If you simply don't have enough liquid, non-IRA assets available to pay the tax, you may want to consider a partial conversion for now, and spread the rest of it over several years.

Investing Insider Tip: Get the Guarantee

Bill Spetrino, professional investor and author of *The Dividend Machine* newsletter, says honesty is crucial in picking a financial adviser. "Find a financial adviser who offers a money-back guarantee or a low-price trial period," Spetrino says. "Any adviser who doesn't agree to those terms really isn't confident in his or her abilities, are they?"

He also recommends asking the prospective adviser how much annual dividend income they personally earn on their portfolios. "Dividends are the sure sign of an excellent value investor who actually practices value investing and just doesn't talk about it," he says.

For more about *The Dividend Machine*, visit www.moneynews.com/newsletters.

Ben's Good Cents

"Without continual growth and progress, such words as improvement, achievement, and success have no meaning."

Keep Your Mechanic Honest With This Handy Device

When the "check engine" light in your car illuminates, it may be as simple as a loose belt or time for an oil change, but it also can be something more serious, anything from a heating/cooling system breakdown to faulty brakes. The problem is, unless you're handy under the hood, you are at the mercy of your mechanic to tell you what's wrong – and what it'll cost to fix it.

Now, imagine the advantage you would have if you could go into the repair shop armed with a basic idea of what's ailing your car and what it may reasonably cost to fix it. With a gadget we discovered called CarMD, you can do just that, putting the power in the negotiation firmly in your corner.

The CarMD is a simple handheld electronic device that plugs directly into your vehicle's onboard computer system. (If your car was manufactured in 1996 or later, it's compatible.) Taking advantage of the same basic technology mechanics use, CarMD will diagnose the problem within seconds.

The device has green, yellow, and red LEDs that light up during diagnosis – green is good, red is trouble – but you get the key details after plugging the device to your computer, where the data is analyzed online and you're given the lowdown on necessary repairs and the going rate for those fixes.

The device costs $119.85, and there is no additional charge for accessing the Internet site when assessing your vehicle. There is a limit of three vehicles per CarMD tester, and six online diagnostic reports a month,

How to Find a Reputable Auto Mechanic

Ken Lavacot, www.2carpros.com co-founder, provided this checklist to help you ask the right questions when searching for a repair shop.

- ✓ If you can, perform your search now, *before* you're faced with a major emergency repair.
- ✓ Ask for references — and call them.
- ✓ Ask whether the technicians are certified.
- ✓ Read the warranty/guarantee, and make sure labor is under warranty too.
- ✓ Find out if OEM (original equipment manufacturer) or aftermarket replacement parts are used. (OEM parts are preferable.)
- ✓ Find out whether they are compatible with your schedule. Are they open extended hours and weekends?
- ✓ Always ask to see your old parts and have the repair facility identify the malfunction.
- ✓ Check your state's Bureau of Automotive Repair for complaints.

If you're in the market for a repair, visiting www.2carpros.com, an online resource for repair advice, before choosing a mechanic can help. "Understanding what's broken and what it takes to repair empowers the owner with more options than just accepting whatever the service writer tells them," Lavacot says.

although chances are you won't need that many. If you're just using the tester itself to get a quick red light/green light check of a vehicle's health, there's no limit to how many vehicles you can plug it into. For information, visit www.carmd.com.

Avoid Credit-Repair Rip-Offs

"Delete negative information from your credit report!" "Increase your credit score by 250 points!" "See results in 60 days or your money back!"

Many "credit repair" companies boldly make such advertising claims. Although some work loopholes of credit reporting and may have some success getting negative information removed from credit reports, others base their sales pitch on promises that are either illegal or undeliverable, while charging steep upfront payments.

The Federal Trade Commission warns consumers to be wary of such offers, advising that "only time, a conscious effort, and a personal debt repayment plan can improve a credit report." However, if you're in the market for a credit repair company, here are some tips to keep in mind:

- Accurate information cannot be deleted from a credit report. Any promises to do so should serve as a warning.
- Federal law prohibits up-front payments for credit repair, and requires you receive a detailed explanation of your legal rights, a written contract, and three days to cancel if working with a for-profit company.
- Creating a second credit profile under a new Social Security number or employer ID number is illegal. Even if you could create a second profile, you would be committing wire and mail fraud every time you applied for credit using mail or the Internet.
- Never respond to offers from unsolicited e-mails. Chances are, they're illegally spamming for business. And don't call 900 numbers for "free" information. The info may be free, but the phone call isn't.

The Best Way to Get Your Credit Report for Free

Federal law requires that the three main credit reporting companies — Equifax, Experian, and TransUnion — provide you with a free copy of their credit report once every 12 months, if requested. To order your free report, visit the only authorized source for free annual credit reports under federal law, www.annualcreditreport.com, or call 1-877-322-8228.

Outside of www.annualcreditreport.com, be wary of websites that offer a "free" credit report, as you may end up getting signed up for a product or service you don't want. For instance, freecreditreport.com, which is legitimate — it's affiliated with credit reporting agency Experian — enrolls you in a credit monitoring service that you have to opt out of. For information, visit www.ftc.gov/freereports.

Managing Millennials for Maximum Productivity

Is your business ready for the next generation of employees? The 80 million members of Generation Y — those born in the years between the mid-1970s and the year 2000 — are continually entering the workforce and moving up the ranks, and they come with their own set of talents and challenges.

To help you understand and motivate Gen Y, also known as millennials or echo boomers, we spoke with Bruce Tulgan, a leading expert on young people in the workplace, founder of RainmakerThinking (www.RainmakerThinking.com), and author of a number of management books, including *Not Everyone Gets a Trophy: How To Manage Generation Y* (Jossey-Bass, 2009) and his latest, *It's Okay to Manage Your Boss* (Jossey-Bass, 2010).

Tulgan offers these four guiding principles for managers:

1. Don't "baby" millennials. Other experts in the management field have it wrong when they recommend "praise" and "reward" programs, based on the idea that Gen Y has grown up with parenting and teaching methods aimed at boosting self-esteem.

"The high-maintenance Generation Y workforce calls for strong leadership, not weak," Tulgan says. "Managers should never undermine their authority, should never pretend that the job is going to be more fun than it is, never gloss over details, never let problems slide, and should never offer praise and rewards for performance that is not worthy of them."

2. Be very clear about expectations. "Managers should spell out the rules of their workplace in vivid detail so Gen Yers can play that job like a video game: If you want A, you have to do B. If you want C, you have do D, and so on," Tulgan says.

3. Treat your best workers better than you do average or below-average ones. Some employees are more valuable than others to you and the organization, and they should get extra attention, perks, and pay.

"Make a point of talking regularly with your very best Gen Yers," Tulgan recommends. "Don't just ask them, 'Are you happy here?' Rather, find out what they really want or need."

Understanding an employee's unique wants or needs is the key to being able to reward that person in a meaningful way. "The more unusual the needs and wants of particular employees, the more valuable they are because it will be harder for other employers to replicate those conditions," Tulgan says.

"Whatever you are doing to be flexible and generous to retain your good employees," he continues, "you need to be much more flexible and generous to keep your great employees." To that end, review how much you are paying your best employees, what kind of scheduling flexibility you are providing, and what tasks and responsibilities you are assigning to them — they should get first choice on special high-profile projects.

4. Don't ever compromise your ability to lead decisively. "Set ground rules," Tulgan says. "Maybe there are corporate policies in place already, but often there are no concrete policies to regulate important intangibles like attitude, tone of voice, and other subtleties of professionalism in the workplace."

Also, do not assume the expectations are clear unless you voice them. "You may need to say, 'Whenever you are working with me, on any task, for any period of time, these are *my* ground rules,'" Tulgan suggests. "Then lay out your ground rules in no uncertain terms, and make it clear they are deal breakers for you: You cannot work with someone who doesn't follow them."

Need a Loan? Try Sam's Club

Tired of waiting for small business spending to pick up, retailer Sam's Club is offering a helping hand: Small Business Administration loans of $5,000 to $25,000, in cooperation with Superior Financial Group, the nation's leading SBA lender.

The retailer announced this year that it will make the loans available online to its members who qualify.

"Access to capital is a major pain point for our members and the small-business Main Street community," said Catherine Corley, membership vice president at Sam's Club. "We believe this pilot program is a step in the right direction to help fuel small business growth and create jobs to stimulate our economy."

The Sam's Club program will complement other offerings by the retailer that cater to small business, including low-rate merchant credit card processing, convenient order-ahead programs, and early shopping hours, the retailer said.

Superior Financial Group is one of 13 approved Small Business Lending Corporations that the SBA regulates, and it specializes in providing access to credit for underserved borrowers. Superior offers free online technical assistance and online training courses that specifically target the borrower's weaknesses. The courses include instructions on writing a business plan, complete with a writing template.

To find out more about the program online, go to www.samsclub.com, scroll down to the "Member Resources" menu along the right-hand side, and click on "Small Business Center."

Your Home

The 'Five-Minute Solution' to Deter Burglars

Home security systems can be pricey, with monthly monitoring fees running from $25 to $100. Still, police in big cities can take as long as 30 to 45 minutes to respond, and the fastest response time in smaller towns is six to eight minutes, according to the Security Industry Alarm Coalition.

Mike Jagger, president of Provident Security in Vancouver, B.C., has 6,000 customers in different areas that his firm monitors. When a burglar alarm goes off, the company's cars respond in about five minutes.

Even so, Jagger said, he tells customers to secure their valuables until help arrives with simple solutions he calls "five-minute proofing." Although they may not deter burglars from attempting to enter your house, they may create enough of a hassle for them to exit and move on to an easier target.

> A U.S. home is burglarized every 15 seconds, according to the federal justice department. On average, homeowners suffer nearly $2,000 in losses and damages from a break-in.

For those without security systems, Jagger says these simple "fixes" will go a long way to deterring any but the most determined thief:

- Put a deadbolt lock on your master bedroom. That is the first place burglars look for jewelry and money.
- Affix your high-end plasma screen TVs to the wall. Use a bicycle lock to attach the TV to the mounting bracket. The same goes for locking down computers and safes. The burglars may rip the TV off the wall, but it will take time — and crooks are opportunists.
- If you have sliding glass doors, put a thick washer at the top of the slider to keep the burglar from lifting it off the track.
- If you have an alarm, reduce the delay time to turn the alarm off as much as possible — preferably to five to 10 seconds, if you can move that quickly when you're shutting it off. "Any time you give yourself to come in, you're also 'gifting' to the burglar," Jagger says.

Ben's Good Cents

"Fools need advice most, but wise men only are the better for it."

Dr. Franklin's Mailbag

Every month, we ask readers for their best tips on saving and investing money. We welcome large and small tips alike, as we value all advice to keep more cash in your pockets to save, invest, or spend better elsewhere.

Get the Lowest Interest Rate Possible on Debt

Do you have a credit card from a company that continually sends you offers for balance transfers or purchase checks? Although you don't want to use those for new purchases — it's never a good idea to run up your credit card balance, after all — they can be helpful for consolidating debt into a lower interest rate.

Check the fine print of the offer. If using the checks doesn't include a stifling transaction fee, and the "special" interest rate is significantly lower than the rate you have now — some offers go as low as zero percent, although you'll more likely see 3.99 percent to 6.99 percent for non-fee transactions — and that term runs for a significant time (at least six months), it may be worth the switch.

My wife and I were able to lower our interest rate by using a 5.99 percent, six-month offer from Capital One. We wrote ourselves the check for $6,000, paid off the remainder of an existing 17.9 percent card with that money, then over the course of the six-month period paid off the $6K in full while being subject to the lower interest rate.

This strategy works only if you're diligent about paying off the balance before the lower-rate period expires, and most importantly, you don't pile other charges on that card, which buries that loan under other debt and almost guarantees you won't be able to pay it all off in the reduced-rate timeframe. With discipline, it's a great way to cut down on interest costs as you eliminate debt.

— John J., San Jose, Calif.

Protect Your Portables

Worried about losing portable items such as cell phones, backpacks, key fobs, laptops, and anything else you can't afford to lose? You can try a service such as Stuffbak.com, which offers ID labels and recovery service. It has various levels of coverage, including some that offer rewards to finders who call the toll-free number on the label and report the identification code, then send the item to Stuffbak, which forwards it to the member. Fees start at $7.95 per label, plus the cost of the service terms, starting at $19.95 and increasing from there, depending on the level of coverage you desire.

I have a cheaper option, and it's worked for me. I use the free return address stickers that come in the mail from nonprofit fundraisers to label my cell phone, charger, case for my glasses, and knitting bag. I insisted that my daughter put one on her handheld game before flying from Atlanta to New York. Sure enough, she left the game in the plane's seat pocket, but by the time we got back from vacation, AirTran in Milwaukee had Googled the address and left a message on our home phone. I made my daughter pay the shipping charge, which was a fraction of the cost of the game.

— Sandra E., Evans, Ga.

Unplug, Then Pour a Cup of Coffee

These tips save a little each month and they add up! First, unplug your washer and dryer when not in use; unplugging saves about 10 percent to 20 percent off my monthly electrical bill, which gives me $60-$70 a year in savings. Another tip: A medium jar of instant coffee is $5 and lasts about two months when used for that first cup in the morning and while driving to work. That is big savings when compared with the $2.50-$3.50 a cup at Starbucks or other coffee shacks.

— Daniel F., Colorado Springs, Colo.

Defend Your Desserts

Many hotels give you free shower caps for your hair. I grab those and use them as pie tin covers instead. They are perfect for covering pies and cakes — with their elastic band, they wrap and secure the pie perfectly, and you can use the shower cap over and over until you are finished with your pie, then toss it. The treat stays fresh, and you don't have to keep using more plastic wrap every time you cut a new piece.

— Robert A., Glen Mills, Pa.

Buy the Meat, Hold the Water

Every time I buy frozen seafood, there is a thin coating of ice on the product. Ask the butcher to knock the ice off and save by not paying by the pound for ice on top of your seafood. Also, keep a lookout for chicken that "may contain up to 15 percent solution" — that's salt water. This means 15 percent of the chicken you're buying is water!

— David B., Columbia Falls, Mont.

Know the Real Economies of Scale

I've learned to read the shelf labels when grocery shopping, and was amazed at how many times the smaller container was cheaper than the "economy" size. I have a friend who works at a grocery store, and found out that they sometimes get overstocked with a small size, and cut the price to even out the stock. These savings are never mentioned in the ads or fliers, so you can't always assume "bigger is better."

The smaller sizes have another benefit. You don't take as long to get through one, so they stay fresher. This practice is very helpful with staple products, like peanut butter, mayonnaise, and things like that. Shop smart!

— J. William H., Westmont, Ill.

SHARE YOUR MONEY SMARTS AND GET $50! **If you have a money-saving (or money-making) idea, send it to saving@franklintips.com or by regular mail to Franklin Tips, P.O. Box 20989, West Palm Beach, FL 33416. If we publish your idea, we'll send you a $50 Wal-Mart gift card.**

Franklin Matters

Franklin on Enjoying The Holidays

By Mark Skousen

"Be at War with your Vices, at Peace with your Neighbours, and let every New Year find you a better Man." — Poor Richard's Almanac

You wouldn't think of Ben Franklin as an advocate of carefree leisure, long vacations, or relaxing with friends and relatives during the holidays. He had to be up and doing! He was famous for lines such as these from *Poor Richard's Almanac*:

"Laziness travels so slowly that poverty soon overtakes him."

"The honest man takes pains, and then enjoys pleasures; the knave takes pleasures, and then suffers pain."

"Life with Fools consists in Drinking; With the wise Man, Living's Thinking."

For Franklin, "time is money" and he warned, "Doth thou love life? Then do not squander time, for that's the stuff life is made of."

Christmas time and other holidays should be taken seriously, not for idle pleasure and amusement. "How many observe Christ's Birth-day! How few, his Precepts! O! 'tis easier to keep Holidays than Commandments," said Poor Richard. "'Tis not a Holiday that's not kept holy."

In reading Franklin's papers, I found that he often spent the holidays writing letters about business matters and scientific pursuits. He was always in a hurry. Yet, as the father of American thrift and hard work became older, he mellowed. At the age of 70, as ambassador to France, he learned a lot from the French, who were famous for frivolity, late-night dinners, and sleeping in. He adopted their lifestyle, much to the consternation of Puritan workaholic John Adams. No more "early to bed, early to rise, makes a man healthy, wealthy and wise" for Franklin. He stayed out late, and sometimes slept until noon. He later wrote a friend, "I find I love company, a chat, a laugh, a glass, and even a song, and relish the grave observations and wise sentences of old men's conversations."

Christmas time was a time to relax and share the rich bounties of life. Said Franklin, "In Christmas feasting pray take care; Let not your table be a Snare; But with the Poor God's Bounty share. Adieu my Friends! till the next Year."

In Paris, Franklin attended dinners and parties galore. He regularly visited the home of Madame Brillon de Jouy, who played music for him. On Christmas Day 1781, he wrote Madam Brillon, who was away in Nice, addressing her "ma chere ami," and expressing how much he missed her "charming noels" of Christmas past.

Upon his return to Philadelphia after the war, he talked of spending his time "so idly" during the long winter of 1785-86 with family and friends, "in conversation, books, my garden, and cribbage." During the holidays, it was time for playing cards and chess, his favorite game. "I passed a winter agreeably in that manner in Passy a few years ago when Polly Stevenson visited us from London," he wrote.

"During the holidays, it was time for playing cards and chess, his favorite game."

Did he feel guilty about so much play time? "I have indeed now and then a little compunction in reflecting that I spent time so idly; but another reflection comes to relieve me, whispering, 'You know the soul is immortal; why then should you be so stingy of a little time when you have a whole eternity before you?' So being easily convinced, I shuffled the cards again, and began another game."

As for holiday gifts, Franklin often sent presents to friends and family. But the best gift was gathering together for a party. "A true friend is the best possession."

On New Year's Day, he wrote his last surviving sister, Jane Mecum, "Our good God has brought us . . . to the beginning of a New Year. The measure of health and strength we enjoy . . . is a great blessing. Let us be cheerful and thankful."

Perhaps this poem would best befit Franklin at this time of year:

Reader, farewell, all Happiness attend thee:
May each New Year better and richer find thee.

Be free,

Mark Skousen, Ph.D., a sixth-generation grandson of Benjamin Franklin, is an economist and holds the Benjamin Franklin Chair of Management at Grantham University. He's the author of *The Compleated Autobiography by Benjamin Franklin*, a tome which fills in the 33-year gap left by Franklin in his original work from age 51 until his death, using Franklin's own papers as the guide.

Ask Franklin

I'm paying off credit card debt accrued after a temporary job loss. With a new job in hand, over the past year I've been able to pay off half of the $20,000 balance. I'm wondering, should I suspend or reduce my 401(k) payments and put the extra money toward eliminating the debt? I'm currently saving 5 percent, and my company offers a match on the first 2 percent. — Jonathan B., Racine, Wis.

Dennis A. Suckstorf, senior financial planner at Financial Advantage Inc., says reducing debt is a great idea, but he advises against suspending 401(k) contributions altogether. "It'd be better to reduce your 401(k) contribution to 2 percent, keeping your employer's matching contribution," Suckstorf says. "At 2 percent, you're getting a 100 percent match for the money you contribute, which means you're doubling the amount going into your account even though your contribution will be 3 percent less for a while."

Use the money represented by that 3 percent reduction to increase your credit card payments, Suckstorf advises. Then, when the cards are paid off, boost your 401(k) contribution back to 5 percent, plus the amount of the credit card payments you were making, to build your retirement account back up.

Be diligent about immediately returning to your higher contribution level. It's tempting once out of debt to divert that extra money to other things, but when it comes to shielding your income from taxes and building your nest egg, a 401(k) is a powerful weapon. The 410(k) pre-tax contribution limits for 2011 are $16,500, plus a yet-to-be-calculated inflation index, which will be figured into that total.

SEND A QUESTION TO DR. FRANKLIN! If you have a vexing money question, send it to askfranklin@franklintips.com or by regular mail to Ask Dr. Franklin, P.O. Box 20989, West Palm Beach, FL 33416. We'll find an expert who can respond with the inside scoop.

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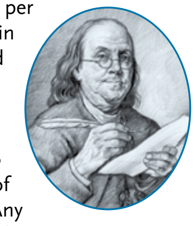

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