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The Pretirement Press

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Intro

Credit Where Credit Is Due

As Q3 begins, it's clear that the country is in the midst of tough times. Whether those times meet the formal definition of a recession or not is irrelevant. The average US consumer is hurting and the average US financial institution is paying the price due to increasing foreclosures and reduced liquidity in virtually all forms of debt. As a result, a look toward the future shows banks and other financial institutions having less money available for borrowing. This means tightening standards for obtaining mortgages, car loans, etc., right at the time that consumers may need to borrow to get through tough times. Rather than dwell on news of the financial markets, something you're likely inundated with from all sources of the media, in this issue, you'll find facts, tips, and instructions on what you should be doing to keep yourself credit-worthy in troubling times. As always, you'll also find a quick update on markets as well, but we believe that focus should be on proactively managing those things in your control rather than worrying about the short-term moves of the stock market. ■

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Free Credit Report

The Real One That Is

Have you checked your credit report recently? Did you know that you can access your credit report for free once per year from each of the 3 major credit reporting agencies? Simply go to www.annualcreditreport.com and follow the onscreen instructions. This site will provide free access to your Experian, Equifax, and TransUnion credit reports. If you've ever had any trouble with identity theft, it's a good idea to obtain a copy from one of these agencies every 4 months, cycling through them so that you hit each one once per year to maximize your use of free reports. If you haven't had any trouble with your credit report previously, or you don't have the time to review your report 3 times per year, you should at least review one of them annually to make sure it's error-free.

All the reports show basically the same information. The key parts to review are the open and closed accounts (including credit cards, mortgages, student loans, and other debt), making sure that they accurately reflect your on-time payment status and that there aren't any errors that could lead a lender astray in thinking you're a larger credit risk than you actually are.

If you obtain your report and you aren't sure what to look for, I'd be happy to review it with you and make sure it's in line with reality. One more note, despite the catchy jingles, avoid www.freecreditreport.com, which does not give you a free copy of your credit report unless you enroll in their fee-based credit monitoring program. ■

This article was reprinted from a previous PWA letter to clients

Your Credit Score

Okay, so you've checked your credit report, made sure there are no errors and are satisfied with the result. Now what? Now you have to understand what your credit report is used for and how your credit score is determined. When you apply for a credit card or a loan, the prospective lender gathers your information and attempts to determine your credit risk. They do that by analyzing the personal data you send them, by examining your credit report, and by reviewing your credit score, AKA your FICO score. This process ultimately decides whether you get the loan or not and what kind of rate you'll be given.

Your FICO® Score	Your interest rate	Your monthly payment (300k Loan)
760-850	5.985%	$1,796
700-759	6.207%	$1,839
660-699	6.491%	$1,894
620-659	7.301%	$2,057
580-619	9.452%	$2,512

Actual Rates 7/11/08 – Bankrate.com

Your credit score can have a dramatic effect on the interest rate you're offered with a loan

Your FICO score is determined by a complex system that was created by the Fair Issac Company (hence the name FICO). To our knowledge, the actual formula has never been released, but the general algorithm has, and that's really all you need to know to improve your score. It is based on:

Please see *Credit Score* on page 4

The PWA Top 10

Ways To A Good Credit Score

Credit scoring is somewhat complicated and no one will be able to follow the point-by-point effect of their credit decisions. However, sticking to some guidelines (some intuitive and some not-so-intuitive) will help keep your score where you want it to be.

1. Pay your bills. On-Time. Always.

2. If you can't pay your bills, call your lender and attempt to arrange an alternate payment plan.

3. Reduce your outstanding balances on revolving lines of credit like credit cards before trying to obtain a loan or other credit cards. Even if you pay your balances at the end of each month, your balance at the time of the credit inquiry is what counts.

4. Avoid signing up for new credit cards for the teaser miles, t-shirts, or points. New credit accounts hurt your score.

5. Don't cancel all your old credit cards, but don't keep an excessive amount of cards open. See the In Focus article for more specifics on this.

"Even if you pay your balances at the end of each month, your balance at the time of the credit inquiry is what counts."

6. If your report shows a late or non-payment that might be inaccurate, challenge it. The credit agency will review the circumstance and will pull it off your account if the lender can't substantiate the claim.

7. Keep your oldest credit cards active. They lengthen your credit history and a lender is more comfortable lending to someone with an established history.

Please see *Top 10* on page 4

Did You Know?

Your Driving Record

We all know that our auto liability and collision insurance premiums depend on our driving record. But, did you also know that that same driving record could contain unpaid tickets you didn't know you had that have been reported to the credit bureaus?

> *"Whether or not you were the actual driver of the vehicle, the incident could negatively impact your credit score!"*

Red-light cameras are gaining in popularity in many cities around the country. These devices work by taking a snapshot of your license plate if you cross through an intersection while the traffic light is red in your direction. A traffic violation is then generated automatically for the registered owner of the car and sent through the mail to the registered address. If the violation goes unpaid, some cities are reporting them to collections agencies and credit bureaus. This means that whether or not you actually received the ticket in the mail, and whether or not you were the actual driver of the vehicle, the incident could negatively impact your credit score!

Did you also know that your driving record is something that you can access like your credit report? That's right, most state department of motor vehicles will allow you to order and view your driving report for a small fee (varies by state). This will show you all your violations and incidents for the last several years (also varies by state) so that you can make sure the information on applications for insurance is accurate. If anything is incorrect, you can inquire with the DMV to have it corrected which could then lower your insurance rates and improve your credit risk as seen by creditors that use the report. Each state has its own website and method of viewing their report, but each is accessible via the following website: http://www.motorists.org/blog/helpful-information/how-to-request-a-copy-of-your-driving-record/. Simply select your home state and follow the instructions on the site. ■

In Focus

What To Do With Old Credit Card Accounts

A long-time question when it comes to credit cards is, "Do I close my old credit card accounts that I don't use?" After much debate, there's a simple answer. "It depends." The reason is that old cards affect your credit score and credit risk in multiple ways.

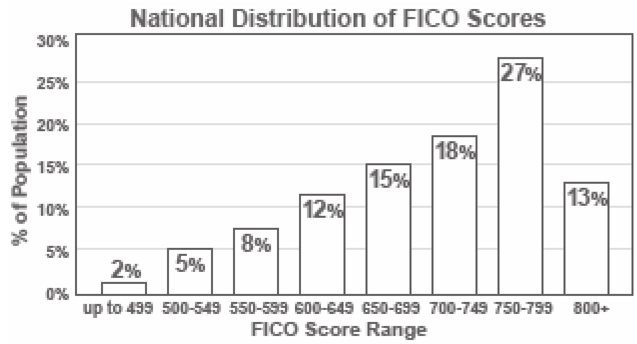
+ Older accounts that are active and open add to your credit history.
+ Having available, unused credit lowers your ratio of used to available credit.
+ Having cards available may prevent you from opening new accounts which could then hurt your score.
- Having too many open revolving credit accounts reduces your credit score
- Having too much available credit may be seen as a risk by your lender (e.g. would you give a new credit card to someone who could run up $300k in other credit card bills)?
- Some accounts charge annual fees and you'll have to pay to keep them open.

Please see *Old Credit Cards* on page 4

Credit Score from page 2

- Payment History (35%) – do you pay your bills on-time, have you ever filed bankruptcy, are you currently or have you ever been in default.
- Amounts Owed (30%) – what portion of your available credit are you using, how big are the balances (esp. on revolving debt), how many accounts (and of what type) are active and/or have balances.
- Length of Credit History / New Credit (25%) – time since your oldest account was opened, age of all active accounts, number of recent applications for accounts and new accounts, time since last application and new account
- Types of Credit Used (10%) – prior and current use of different types of credit (mortgage, installment, revolving, etc.)

There are many standards of what constitutes a "good" FICO score. Some say higher than 720, others say higher than 750, and still others say higher than 780. Because each lender will use the information in their own way, all we really know is that the higher your score is, the better off you'll be.



To estimate your FICO score, use the calculator that's provided for free at: http://www.bankrate.com/brm/fico/calc.asp. To see the real thing, when you obtain your free annual credit report from one of the reporting agencies, purchase your score from them for a nominal fee (<$10). ■

Top 10 from page 2

8. Make sure you have credit established. Having no credit cards, no mortgage, etc. will hurt your score because lenders will have no payment history on you.

9. Be aware of co-applying for loans or credit. If your name is on the account, even if you don't consider yourself responsible for it, missing or late payments will negatively affect your score.

10. Understand the impact of your spouse's credit score. If you apply jointly for a loan like a mortgage, they will generally use the lower of the two scores (among other factors) to determine your risk. ■

Old Credit Cards from page 3

If the card has an annual fee and you don't use it, close it. Otherwise, the positives of leaving old cards open generally outweigh the negatives, so in most cases, you're better off just leaving the accounts open and cutting up the cards when they come in the mail. If you don't carry much of a balance on any cards and you have a lot of available credit on multiple cards, consider closing only your newest unused accounts. The best answer, of course, is not to open credit card accounts you don't need and don't plan to use, even if they have a nice $25k mile teaser that goes along with them. ■

Buyer Beware

Balance Transfers

While balance transfers in and of themselves do not hurt your credit, applying for new cards to make the balance transfer likely will at least temporarily reduce your credit score. Additionally, note that virtually all balance transfer offers, even those to a 0% promotional APR, now carry a 3% transaction fee. That will be added to the amount transferred as the balance on the new card. Also beware that this additional 3% could put you over your credit limit on the new card and you may not be notified by the lender until after the transaction takes place. This arguably predatory practice is legal (for now) and will result in a negative item on your credit report as well as surcharges and increased interest rates. Make sure you read all the fine print if you're ever transferring a credit card balance to another card. ■

Hot Topics

Identity Theft

Having your identity stolen is a sure way to damage your credit score and credit report. The best way to prevent this from happening is to safeguard your information and be as prepared as possible for the case where too much information falls into the wrong hands. The Privacy Rights Clearinghouse has a wealth of information on the web regarding this topic. Check out their "Reducing the Risk of Fraud" fact sheet at: http://www.privacyrights.org/fs/fs17-it.htm and "Identity Theft: What To Do If It Happens To You" at: http://www.privacyrights.org/fs/fs17a.htm. ■

Markets

Pain Presents Opportunities

As the second half of 2008 opens, I'm sure it's clear to everyone reading this that the economic situation in the US (and the rest of the world for that matter) is the worst we've seen in quite some time. Job cuts, housing woes and spiking commodity prices continue pressure the US consumer on Main St. while an overwhelming credit crunch led by those housing woes weighs on investors on Wall St. We noted in our Q2 update that we hesitated to give the all clear signal despite a turn up in markets in early-April. Unfortunately, we were right and we have gotten another leg down.

The good news is that with the S&P 500 now down more than 20% from its highs a lot of the risk has been taken out of the stock market. Bonds have continued to fare pretty well, and commodities have done extraordinarily well as energy and food prices have soared. The inclusion of bonds and / or commodities in all of our client portfolios has helped to soften the fall and reduce volatility.

We continue to keep client funds for longer-term goals invested aggressively (within client risk tolerance). Those portfolios have slumped with the broader markets, but with the funds not needed for several years, there is plenty of time to recoup losses, modify spending plans, or adjust the portfolio. Funds that are needed for the shorter-term are invested more conservatively, and our clients have noted that those portfolios have not suffered nearly as much as the rest of the market. This strategy of matching aggressiveness with the timing of the need for funds continues to serve our clients and ensure they have the money they need to achieve their goals.

Please see *Markets* on page 6

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PWA's president, Tom Nardozzi, is a CERTIFIED FINANCIAL PLANNER™

***Markets* from page 5**

Overall, we now feel the US stock market is relatively cheap. Does that mean it'll rise tomorrow, next month, or over the rest of the year? No. Does it mean that odds are starting to favor growth again, rather than another onslaught of 20% losses? Yes. There is substantial uncertainty in the economy and the stock market over the short-term. But, this means there is also substantial reward for those who remain invested when things begin to turn around. The best way to take advantage of price declines in the financial markets is to stick to your plan and continuing to invest for your future goals. One of our clients, who clearly understands the bright side of declining markets, actually cheers for market declines at the end of each month so his 401k deposit will be made on the cheap. He realizes that the cheaper those investments are when purchased, the greater the return potential for the future. Now that's someone who sees how short-term pain can bring long-term opportunity. So, as another quarter begins, here's to the future realization of those opportunities. ■

The Pretirement Press is a PWA's quarterly newsletter to clients. If you have comments or suggestions for future newsletters especially items you'd like to see in the In Focus section, please contact us at newsletter@perpetualwealthadvisors.com. If you're not a PWA client, but received this newsletter and would like to be on our mailing list, please send an email to subscribe@perpetualwealthadvisors.com with Subject Line: Add Me. As always, if you or someone you know are interested in PWA's comprehensive planning, asset management, decision support, or tax prep services, please contact us to set up a free consultation. It's a small amount of effort to start down the journey to perpetual wealth.

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