



The MONEY MONITOR

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Shopping Addiction, Not A Joke Punch Line Anymore

Shopping addiction, once a punch line about the affluent, is no laughing matter. According to research from Stanford University School of Medicine, more than one in 20 American adults—and, surprisingly, that includes nearly as many men as women—suffer from compulsive buying disorder.

Experts see shopping addiction as a growing public health problem affecting people across the economic spectrum, often with ruinous financial consequences. Editors of *American Journal of Psychiatry*, which published the Stanford “shopaholic” study in its October 2006 issue, called for adding compulsive buying to the profession’s bible, “The Diagnostic and Statistical Manual of Mental Disorders.”

“For some people, this is an addiction as serious as alcohol and drug abuse,” notes April Lane Benson, an expert in shopping disorders and editor of *I Shop, Therefore I Am: Compulsive Buying & The Search For Self*. “This long smiled-upon addiction is at last being recognized as a genuine, destructive, and treatable illness.”

Compulsive or healthy? Shopping can be an important means of self-definition, self-expression, creativity, and even healing, according to Benson. Done to excess, however, it can compromise your quality of life. How do you know if you are a compulsive buyer? Benson, a psychologist, suggests taking a self-inventory:

- Is shopping a quick fix when you’re lonely, angry, depressed, bored, hurt, anxious, sad, or feeling inadequate?
- Do you spend more than you can afford?
- Are some purchases unused or hidden?
- Do you feel “high” when you go on a buying binge and ashamed afterward?
- Have attempts to change failed?

Shopping is an issue only if it impairs your life, according to Benson, who has developed a “Stopping Over-

shopping” treatment program. But there can be costs to compulsive buying, a condition marked by frequent binge shopping, the stockpiling of unneeded, unwanted items, and, as a result, financial hardship.

Out-of-control credit card debt is the most obvious consequence. Marriages can dissolve over money issues, kids may be neglected, and jobs could be jeopardized. The condition has also been linked to suicide and criminal behavior.

A sex-blind addiction. The least expected finding to emerge from the Stanford study, the first large nationwide effort to gauge the prevalence of compulsive buying, was that nearly as many men as women suffer from the disorder. Contrary to earlier estimates, which held that most victims are female, this research found that shopping

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Your Summer Financial Review

The dog days of summer are upon us! This edition of the Money Monitor should provide for some interesting and instructive reading. The topic of our first article is often treated as a joke, but as you will learn, the issue of shopping addiction is no laughing matter.

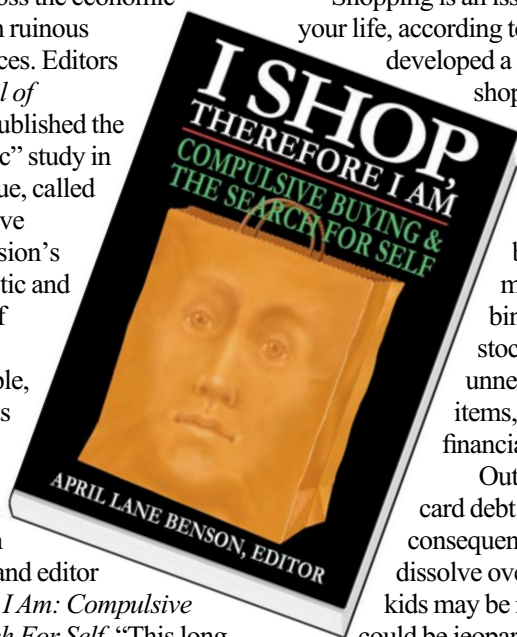
Hybrid cars have become very popular in recent years. If you are in the market for a hybrid, our page 2 article has some timely information concerning the tax breaks received for the purchase of hybrid vehicles. Also, if you are interested in saving for a youngster’s college education, there is an excellent article on pages 2-3 which discusses college savings clubs.

What’s the best way to gauge the performance of your portfolio? Not an easy task, particularly for those investors with multi-asset class portfolios. Popular benchmarks such as the Dow Jones Industrial Average and the S&P 500 Index are narrow and represent only a single asset class. The page 3 article on benchmarks explores this challenging topic.

In light of the constant change associated with our tax laws, careful tax planning is crucial. Our final article discusses some very important changes to the tax rules surrounding the sale of appreciated assets.

We hope you are enjoying a wonderful summer and we look forward to seeing you soon.

Ken Robinson, CFP
Senior Planner



IRS Puts The Brakes On Hybrid Tax Credit

George and Lisa are looking for a new automobile. He wants something sporty. She wants it to handle well and drive smoothly. But they agree on one point. They're both looking for one of the new hybrid vehicles that conserve fuel by pairing a combustion engine with an electric motor. Not only will they save on gas, but hybrids come standard with a federal income-tax credit that could be worth thousands. If the couple settles on a Toyota or Lexus, however, the timing of their purchase will determine whether or not they receive a tax credit.

Hybrids are the most readily available cars qualifying for the alternative motor vehicle tax credit, observes Mark Luscombe, federal tax analyst at CCH, a tax-information provider in Riverwoods, Illinois. Other categories include vehicles that run on advanced lean-burn technology or alternative fuels. The credit comes courtesy of a 2005 energy act and has been available since January 1, 2006. The car must be new, and you must be the original buyer. If you lease, the credit goes to the company leasing the car, not to you. "And if you're subject to the alternative minimum tax, you can't use this credit," Luscombe says.

For each alternative-vehicle model, the Internal Revenue Service sets the amount purchasers can claim on their tax returns. (These are

60,000 alternative-energy vehicles, the tax credits for its models start phasing out. Toyota became the first to hit that mark, in the second

Toyota's Disappearing Tax Credit

Model	Through 9/30/06	10/1/06 to 3/31/07	4/1/07 to 9/30/07 *
2007 Toyota Prius	\$3,150	\$1,575	\$787.50
2007 Toyota Camry or Highlander Hybrid	\$2,600	\$1,300	\$650
2007 Lexus RX400h	\$2,200	\$1,100	\$550
2007 Lexus GS450h	\$1,550	\$775	\$387.50

Source: Internal Revenue Service

* Credits for all Toyota and Lexus models end after 9/30/07

dollar-for-dollar tax credits, not deductions.) The credit level is based on fuel economy, not the car's cost, says Luscombe. Take Honda's top-of-the-line, V-6 Accord Hybrid. It would probably cost George and Lisa \$10,000 more than the 4-cylinder Honda Civic Hybrid. But buying the smaller car would give them a credit that, at \$2,100, is \$800 higher than the credit on the Accord. (For a complete list of qualifying makes and credits, go to www.fueleconomy.gov.)

Another quirk of these credits is that they are available only to a limited number of buyers, as an incentive to make you run out and buy a hybrid now, not later. Once a manufacturer has sold more than

quarter of 2006. As a result, the credit for all Toyota and Lexus hybrids, which Toyota also makes, was cut in half two quarters later, starting October 1, 2006, and was reduced by another 50% two quarters after that, on April 1, 2007. There will be no tax credit for Toyota or Lexus hybrids after September 30, 2007. But the IRS has yet to clarify whether the cut-offs apply to ordering the vehicle, paying for it, or taking delivery.

Honda, which had sold 28,408 vehicles by the end of September 2006, is currently the odds-on favorite to be the next manufacturer whose credits will be phased out. ●

College Savings Clubs Can Boost Education Funding Plans,

Free money is always nice, and that's what you get from college saving clubs such as Upromise and BabyMint, says education funding expert Joe Hurley. "These programs just take what you normally spend and use it to generate rebate dollars for college savings," says Hurley, founder and CEO of Savingforcollege.com.

That's a nice deal, particularly when rebates flow directly into tax-advantaged 529 college savings plans. There are dozens of college saving clubs and rewards programs, with new ones popping up every year. Two of the largest are Upromise, with an estimated 6 million members, and BabyMint, with some 2

million. Though each club has its own rules, most follow the same general plan. You sign up, perhaps registering your credit card or using the program's own branded credit or rewards card, so that your spending is recorded. You may be rewarded for patronizing certain stores, brands, or even financial services companies and real estate brokerages. Some clubs offer additional perks, such as BabyMint's promise to reduce tuition at 150 participating colleges by \$1 for every rebate dollar you earn.

Though college savings clubs can help you save substantial amounts—Hurley says he and his wife have

used the programs to add thousands of dollars to 529 accounts for their two children—there are generally caps on how much you can earn. For example, the Fidelity 529 College Rewards Card from MBNA offers a 2% rebate on purchases, earmarking the money for Fidelity-managed 529 plans in Arizona, Delaware, Massachusetts, and New Hampshire, but annual rebates are capped at \$1,500. The Citi Upromise Card gives a 1% rebate on general purchases, with an annual ceiling of just \$300. However, when you use the card at Upromise partners, including gas stations, grocery stores, and drug stores, the rebates range as high as 10%, sometimes

Do Investment Benchmarks Matter?

Champagne was flowing on Wall Street last October when the Dow Jones Industrial Average hit a string of record highs. But should you be popping corks? Only if your entire portfolio is invested in the 30 stocks that make up that index, says Russel Kinnel, director of mutual fund research at Morningstar Inc. in Chicago. Even then, considering the Dow took almost seven years to regain ground lost since early 2000, there might not be much to cheer about.

The real trouble with headline-grabbing market benchmarks is they say very little about how your own portfolio is doing and even less about whether your financial plan is on track to meet your personal goals. For that, you need a personalized set of benchmarks based on your goals, risk tolerance, and time horizon. And because no two financial plans look exactly the same, no cookie-cutter benchmarks can help you track your individual progress.

“You have to set your own expectations and goals,” Kinnel says. To monitor your investments effectively, you have to know why you chose a particular investment and what you hope to accomplish.

Part of the problem is that the performance of different stock market segments may vary widely, and year-by-year gains and losses are unlikely to form a consistent pattern. For example, consider the wide differences between

the Standard & Poor’s 500, one of the best benchmarks for large-cap stocks, and the Russell 2000, which tracks the small-cap sector. Through October 2006, the S&P 500 posted a 12-month return of 17.73%, while during the same period the Russell racked up 9.2% in gains. Yet during those five years, the S&P had an annualized return of 6.62%, less than half of the 13.78% yearly advance of the small-cap index, according to Morningstar.

Your own portfolio is likely to exhibit the same kind of variability, making it all the more important to remember you’re in this for the long haul. “You can’t say my goal is to have my portfolio return 7% a year and then panic because one year it didn’t make that,” Kinnel says. “You have to have a long-term perspective, keeping focused on your long-term goals.”

Moreover, total returns are only part of the equation. There’s also the matter of how much risk you are willing to assume to reach target returns. Every asset class has its own risk-return profile based on historical returns and volatility. And because different asset classes tend to outperform during different market cycles, it is important to hold a variety of investments that balance out your own risk-return profile over the long term.

For example, looking at the five-year period ending December 31, 2006, large-

cap value stocks posted an average annualized return of 8.95%, according to Morningstar Inc. Small cap growth stocks posted almost identical results, up 8.27% over the same period, but achieved those returns with significantly more volatility and more risk to investors. Morningstar measures volatility according to the variability (standard deviation) of returns of an asset class. The standard deviation for large-cap value over those five years was 19.12% compared to 27.53% for small cap growth.

Volatility can have a tremendous impact on long-term performance. For example, if a \$100 stock drops 25% to \$75, it must climb 33% just to get back to its starting point. If the same stock drops 10%, it needs only an 11% gain to break even.

A diversified portfolio, done properly, dampens volatility by incorporating a variety of assets, and may post positive returns even when indices such as the Dow and S&P 500 are struggling. But diversification also makes it difficult to track individual progress against a public benchmark.

“It’s helpful to know what the market has done to put your portfolio in context,” Kinnel says. “If the S&P 500 has gone up 20% and your large blend fund was up only 10%, you might want to take a look at why it didn’t meet that benchmark.”

But the answer could be that the S&P carried more risk than your fund—and more risk than you’re comfortable taking on. A more important question is whether you’re on track to achieve individual goals.

To help you understand your portfolio’s returns, and the role of your investments in meeting your financial objectives, we can provide a financial independence analysis that measures your progress against personal investment goals. The individualized benchmarks we establish will be much more meaningful than what happens to the Dow. ●

Rates of return for indexes noted in this article are not the returns of actual portfolios. An investment in those categories or classes of investments will not return exactly the same as the return on the category benchmark, and the past performance is not an indication of your future returns.

But What Can You Expect From One?

with no yearly cap. Upromise 529 plans are administered in New York, Missouri, and Nevada. Like most other 529 plans, these are also open to out-of-state savers.

There are some potential drawbacks. If you don’t pay off your credit card balance every month, interest charges could quickly exceed the value of the rebates you earn. And some people find themselves changing normal spending habits just to earn rewards. “You don’t want rebates to drive your purchasing,” warns Hurley.

Still, if you’re considering a big-ticket item—a large-screen television, say, or even a new car—it could pay to look into rewards programs offering rebates for

those purchases. Even if such programs aren’t tied to college savings plans, you could deposit the cash you receive into a 529. Finally, there are tax implications. Rebates that go into a child’s 529 plan are technically gifts, and while your \$12,000 annual gift-tax exclusion per recipient will easily cover whatever rebates you earn, that money needs to be counted with any other gifts to the same recipient. ●

You should consider a plan’s investment objectives, risks, charges and expenses carefully before you invest. The issuer’s official statement contains this and other information about the plan, and should be read carefully before investing. Investors should consider whether the investor’s or designated beneficiary’s home state offers any state tax or other benefits that are only available for investors in such state’s qualified tuition program. Contact the plan company or our office for a prospectus.

Consider Selling Assets Before 2011

If you're wavering about whether to sell your grandmother's home or an investment that may still be gaining value, now you can take your time making the decision. Congress recently extended the 15% maximum tax rate on long-term capital gains, a move that is expected to bring a total of \$149.7 billion in tax savings to investors. The provision had been set to expire at the end of 2008, but now will remain in effect through 2010.

A long-term capital gain is the profit you earn selling an asset you own for at least one year. If, for instance, you purchased stock for \$1,000 and sold it years later for \$1,000,000, taxes are calculated based on a \$999,000 gain. Until 2003, you'd have owed Uncle Sam as much as 20%—\$199,800 in this example. At a 15% rate, you pocket an extra \$49,950, owing taxes of only \$149,850.

Homeowners who sell enjoy an additional tax break. You can exclude from capital gains up to \$250,000 (\$500,000 for married couples) of profit on the sale of your home. To qualify, your home must have been your principal residence for at least two of

the five years prior to the sale.

What about assets I own for less than a year? When you sell these "short-term" assets, profits are taxed as ordinary income, at a rate of up to 35%. The same rule applies to collectibles such as coins or art

An extension of lower tax rates on long-term capital gains could save taxpayers a total of \$149.7 billion

regardless of how long you own them.

What if I lose money on a sale?

Losses on the sale of long-term assets can offset capital gains, plus you can deduct up to \$3,000 in losses from your income each year. Excess losses can be carried forward to future tax returns.

Things may get trickier if you sell inherited assets. Currently, the

value of assets you inherit is stepped up to the market value at the death of their owner. When you sell, you're taxed only on profits exceeding what the assets were worth when you received them. For example, if your Uncle leaves you \$5 million in stock for which he originally paid \$100,000, you're taxed only on sale proceeds exceeding \$5 million.

But that tax break ends in 2010, along with the estate tax. If you inherit and sell assets that year, your tax bill will take into account the assets' purchase price. But inheritors will be able to increase the tax basis of total inherited assets by a maximum of \$1.3 million. (Surviving spouses can further inflate the basis by up to \$3 million.) So if you inherit that \$5 million stock your uncle purchased for \$100,000, your capital gains will be based on a new tax basis of \$1.4 million (\$100,000 original basis + \$1,300,000 step-up).

If you've hesitated to sell certain assets whose value may still be rising, remember to factor in the new rules on capital gains, which could affect your ultimate tax bill. ●

Shopping Addiction

(Continued from page 1)

compulsion afflicted 6% of the women surveyed and 5.5% of the men.

Yet the lack of a gender gap doesn't mean men and women are affected the same way, according to Benson. Women, for example, tend to shop as if it were leisure or recreation, while men shop under the guise of work. "Men shop a lot on the internet," Benson says, "and they tend to call themselves collectors; it gives the activity a highbrow and slightly refined cast. Men also tend to be 'image' spenders, picking up the tab when they can ill afford it and buying fancy cars or cameras."

Treatment strategies. Compulsive buying can be treated through therapy, self-help programs, and financial counseling. Benson's program to help addicted

shoppers includes these strategies:

- Figure out why you shop compulsively and how it began.
- What are the triggers—inadequacy, guilt, sadness, fear?
- Explore your ambivalence about changing your habits.
- Track the expense of every purchase.
- What are you really shopping for? Identify underlying needs you are trying to meet such as comfort, belonging, revenge, companionship.
- Identify life-enhancing ways to meet those needs. If you are feeling guilty, for instance, you might need to give yourself latitude, atone for a wrong, or seek forgiveness.
- Shop mindfully. Design ways to build strength, develop awareness, and tolerate your impulses without acting on them.

● Create alternatives to shopping. If you overshop out of a craving for the personal attention of salespeople, call someone you feel close to and meet for dinner, a movie, or conversation. Or connect with someone by volunteering your help or expertise. The urge to shop is likely to dissipate, and you will have addressed what Benson calls your authentic need.

"There is an inverse relationship between materialism and subjective well-being," says Benson. "But when you use your money to take care of education, to provide an enriching experience for your family, that relationship doesn't hold. When people use money for experience as opposed to goods, they feel more satisfied. The acquisition of true wealth has to do with the cultivation of activities and interests that enrich you as a person." ●