

Winter 2007

The Hidden Benefits of Our Investment Management

By: Ryan Collier, Investment Analyst

There are obvious benefits to having a professionally-managed portfolio, but there are also benefits that are easy to overlook. Here are some perks that you may be unaware of receiving as a Bedel Financial Consulting client.

Lower transaction costs. Many funds Bedel Financial Consulting uses do not charge transaction fees when buying or selling. Some funds that we recommend do have costs associated with them. To be included on our “buy” list, funds which are not part of the no-transaction fee mutual fund supermarket typically must have very strong performance records, great management and low annual operating expenses. Bedel Financial Consulting has special negotiated pricing that allows us to buy or sell these funds at a much lower cost than the average retail client is charged.

Lower internal costs. Bedel Financial Consulting has access to institutional

share class mutual funds. How does this benefit you? Sometimes a mutual fund will offer two classes of the same fund—retail shares for individuals and institutional shares for professional investors. These institutional shares are normally identical to the retail shares, but operate at a much lower internal expense. Recently we were able to move one of our bond funds from the retail class to the institutional class, which will lower this fund’s annual operating expense by 0.21 percent per year. This may not initially seem like much, but by compounding that savings over many years, you will definitely benefit.

Access to load-waived mutual funds. Some mutual fund families charge an upfront fee to buy into the fund. This fee is called a “load,” and the funds are commonly referred to as “loaded mutual funds.” Upfront loads can start as high as five percent or more. Some very well-managed mutual funds charge this upfront fee. We would never recommend that a client pay a load of any sort in purchasing a mutual fund. However, we can access many loaded mutual funds without having to pay the upfront sales charge. This allows Bedel Financial Consulting an even wider universe from which to select our funds than the average retail investor can access.

Access to closed mutual funds. Sometimes funds may decide to close their doors to new investors. For instance, when a fund has established a consistently strong performance, investors often move money into the fund at a rapid pace. To put the brakes on the inflow of new money, the fund may be closed to new investors. This can be frustrating, as it is usually some of the best performers that close their funds to new investors. However, many of those closed funds will allow Bedel Financial Consulting to continue using them.



Access to fund management. As we evaluate the funds we are recommending to our clients we look at many aspects.

The mutual fund’s management is a very important factor for us, as it is the manager that typically sets the fund’s strategy and investing style. Our firm has the ability to talk directly to the fund’s managers. This can be very important as we make a decision on whether to use a fund. This direct communication with fund management can also help us understand why a fund is performing the way it is. For instance, a fund that is under-achieving may still be a good investment, while a fund that is over-performing may not.

Dedicated, on-staff investment professionals. Bedel Financial Consulting has a dedicated, well-informed investment team whose main focus is investments and investment-related issues. Our team regularly travels to and participates in investment conferences and industry events and visits with mutual fund firms. We have a solid, working knowledge of the industry.

Although these benefits are typically transparent, collectively they provide an exceptional “hidden” value for our clients.

Contact Ryan if you have questions or would like additional information regarding this topic.

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From Elaine From One Extreme to Another

Mother Nature has given us her own version of "extreme makeover" this year. Blizzard and near-blizzard conditions, ice storms and sub-zero temperatures have replaced the warmer weather we experienced earlier. This serves as another reminder to focus on the things over which we have some measure of control, such as financial planning.

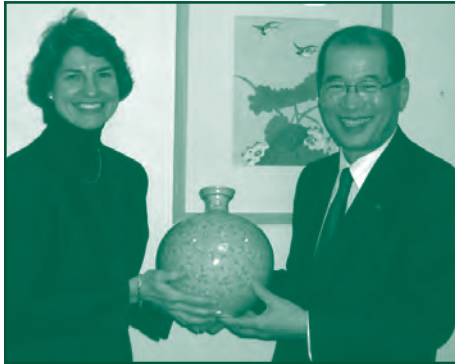
During the Financial Planning Standards Board (FPSB) meeting in Hong Kong last

November, I traveled with my fellow board members to Shenzhen, China, for the first conferment ceremony for individuals earning the Certified Financial Planner™ designation. Over 400 individuals completed the required education and passed the rigorous exam provided by the Financial Planning Council of China. I was pleased to participate in this historic event, both as a speaker and as part of the actual conferment ceremony.

I was invited by the Korean Financial Planning Association to Seoul, South Korea, to provide the keynote address at its second annual financial planning conference last December. Since most of South Korea's financial planners work for large financial institutions, the more than 1,000 planners who attended the conference were very interested in learning about independent firms like ours. I was quite impressed with their questions.

It has been very rewarding to me to see first-hand the financial planning profession progress in these two

countries, as well as the rest of the world. I was honored to serve on the FPSB board, and I look forward to observing the continued global growth of our profession. Even though the majority of each of my international trips was business-oriented, I have enjoyed the opportunity to visit and to experience the cultures of other countries.



Elaine and Byung Chul Yoon, Chairman of the FPSB Korea.

Back on the home front, I would like to welcome Eric Martz to our firm as a senior investment manager.

Eric brings extensive experience in the banking, trust and investment areas. We look forward to introducing him to each of you at the earliest opportunity. You can read more about his background by visiting our Web site at www.BedelFinancial.com.

This newsletter focuses on a variety of topics pertinent to our clients. The feature discusses the hidden benefits our clients receive by having their investments professionally managed. If wedding bells are in your future, our Client Dream – Client Reality column addresses how to merge finances painlessly. You will also find our current assessment of Indiana 529 Plans and updated contribution limits for 2007.

Until next time, stay warm and stay safe! And remember, the balmy days of spring are right around the corner.

Sincerely,


Elaine E. Bedel, CFP®

Client Dream – Planning for the Big Day

By: Julie Scheers, CFP®

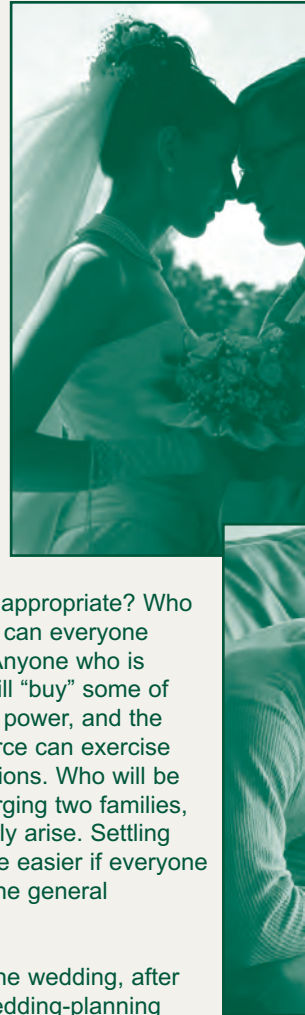
Wedding bells will soon be ringing for many people, after engagement announcements made around the Christmas and Valentine's Day holidays. The blushing bride or nervous groom may be you, your child, your friend or your mother. No matter who the happy couple is, or how old they may be, many of the financial issues related to marriage remain the same.

Planning for the upcoming wedding is often a couple's first encounter with financial issues.

What size budget is appropriate? Who will pay? How much can everyone realistically afford? Anyone who is contributing funds will "buy" some of the decision-making power, and the primary funding source can exercise veto power on decisions. Who will be involved? When merging two families, conflicts will inevitably arise. Settling these conflicts will be easier if everyone agrees up-front on the general structure.

Well in advance of the wedding, after the initial flurry of wedding-planning activities dies down, discuss personal finances with your significant other. Here are just a few of the areas that need to be discussed.

Money mentality. Is it easy to talk about money? If not, how will you create a "safe zone" so both of you are comfortable discussing money issues with each other? Are you compatible savers? If one of you is a "spender" and one is a "saver," how will you work out money decisions? Some people agree not to purchase items over a certain dollar amount without checking with their partner first. Others make budgetary allowances for additional spending in certain areas. Who will be responsible for managing investments? Even if one takes the lead, both of you need to be aware of what is happening with your joint finances.



Elaine's Weekly Report

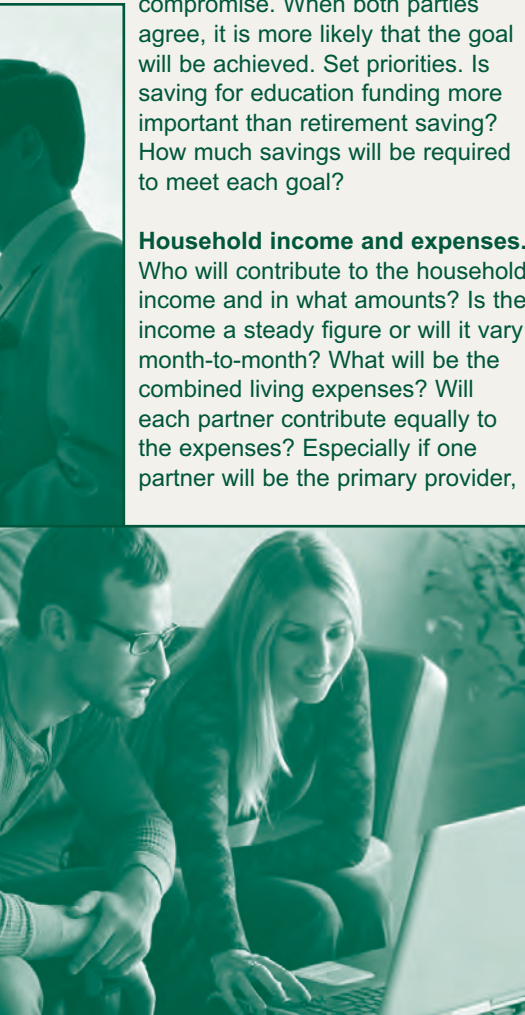
Elaine's articles appear each Monday in The Inside Edge e-newsletter, published by Inside Indiana Business. Subscribe at www.insideindianabusiness.com.

BFC's Video Magazine

Check out our video magazine at <http://bedelfinancial.watchourvideos.com> for financial planning and investment management tips. You can view past videos and sign up to receive future ones. This is just one more way we are reaching out to you with timely information.

Financial goals. What are your goals, i.e. retirement, second home, charitable giving, etc? If they are not the same, discuss the differences and be willing to work toward a mutually agreeable compromise. When both parties agree, it is more likely that the goal will be achieved. Set priorities. Is saving for education funding more important than retirement saving? How much savings will be required to meet each goal?

Household income and expenses. Who will contribute to the household income and in what amounts? Is the income a steady figure or will it vary month-to-month? What will be the combined living expenses? Will each partner contribute equally to the expenses? Especially if one partner will be the primary provider,



make sure that you are both comfortable with the lifestyle you decide upon. The providing partner can sometimes become resentful of the non-providing partner's spending decisions. Conversely, the non-providing partner may feel guilty for spending income that he or she did not earn. If all income is shared, consider including a monthly budget allowance that each partner can spend with no questions asked. Overall, make sure that you are "on the same page" regarding your spending.

Plan your financial future together before the wedding. The best wedding present you can give each other is peace of mind.

Contact Julie if you have questions or would like additional information regarding this topic.

By: Bill Wendling, CFA, Portfolio Manager and Kathy Hower CFP®, Financial Planner

For several years, Bedel Financial Consulting has not recommended the Indiana 529 College Savings Plan to clients. Recent changes in the Indiana 529 Plan make us now feel that there are some advantages to participating in it.

A look at the beneficial changes

Indiana legislation, passed in the fall of 2006, provides a state tax credit to Indiana residents who contribute to the plan. Beginning in 2007, plan participants will receive a credit equal to 20 percent of their contributions, up to a maximum credit of \$1,000 (20 percent of a \$5,000 contribution). Only one credit is allowed each year per tax return. Taking \$1,000 off your state tax bill is similar to earning an immediate 20 percent return on a \$5,000 investment. While the tax break is not directly reflected in the college savings account, its benefit should be included when analyzing the overall value of the Indiana plan versus another state's plan that does not provide a generous tax break.

To qualify for the tax credit, taxpayers must show proof of contribution. This seemed to us to be a rather low hurdle, so we confirmed it with Indiana State Treasurer Richard Mourdock. The contribution can be a deposit of new money or it can be a transfer from another state plan. Currently, there is no minimum time requirement to stay in the plan before participants can benefit from the tax break.

Other plan provisions

Unfortunately, the administrative expenses of the plan are still higher than what we would like to see. Compared to lower-cost 529 plans offered by other states, the Indiana plan can have an annual cost of 0.5% or higher.

Just as concerning, the investment returns for the Indiana plan have been somewhat lower than those of its competitors. For example, investment returns for another plan we recommend have yielded annual returns as much as 1.35% (net) better than the Indiana plan for similarly allocated investments.

Still, the 20 percent head start the Indiana 529 Plan offers, makes it very difficult for other state plans to catch up to it, particularly if the beneficiary is nearing his or her college years.

Your options

If you plan to make a contribution to a 529 plan in 2007, you should make it to the Indiana 529 plan, but only up to \$5,000. To avoid the sales charges that can be assessed, you should opt for the age-based investment option. Any amount beyond \$5,000 should be directed to a less costly 529 plan.

If you do not plan to make a contribution in 2007, but you have dollars in another 529 plan, you should consider transferring up to \$5,000 to the Indiana 529 plan to qualify for the credit.

Contact Bill or Kathy if you have questions or would like additional information regarding this topic.

Your Questions What's Happening in 2007?

By: Kathy Hower, CFP®

Q: Are there any new changes for Health Savings Accounts (HSA)?

A: Yes. Beginning this year, you can roll traditional IRA or Roth IRA monies and funds from a Flexible Spending Account (FSA) to your HSA. Both rollover options can occur only once during your lifetime. IRA rollovers are limited to the maximum annual HSA contribution amount; however, the FSA rollover is not. (SEP and SIMPLE IRAs cannot be rolled over.) The HSA maximum contribution

amount now equals the IRS limit, and not the lesser of the limit or plan deductible. The IRS limit is \$2,850 for singles, or \$5,650 for families. An additional \$800 contribution can be made to an HSA by individuals age 55-64.

Q: What are the new contribution limits for retirement plans in 2007?

A: For 401(k), Roth 401(k), 403(b) and 457 Plans the limit is \$15,500, plus

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Your Questions

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\$5,000 catch-up for individuals age 50 and above. For Keogh Plans it is the lesser of 100 percent of net earnings from business or \$45,000. For IRAs or Roth IRAs it is \$4,000, plus \$1,000 catch-up. For SIMPLE IRAs or 401(k)s it is \$10,500, plus \$2,500 catch-up. And for SEP IRAs, it is the lesser of 25 percent of compensation or \$45,000, plus \$2,500 catch-up.

Q: What are the income limitations for contributions to Roth IRAs?

A: The maximum contribution is phased-out for individuals with adjusted gross income (AGI) between \$99,000 and \$114,000. The AGI phase-out for married individuals filing jointly is between \$156,000 and \$166,000. The phase-out for those who are married/filing separately is \$0 to \$10,000.

Q: Is Indiana now offering a state tax credit for contributions to the Indiana 529 Savings Plan?

A: Yes. Beginning in 2007, Indiana is allowing a 20-percent state tax credit for contributions made to Indiana's

plan, up to \$5,000. (A maximum credit of \$1,000 per return.)

Q: Has Congress decided on the unified credit amount for estate tax purposes?

A: No. The anticipated \$5 million exemption amount per person was passed by the House in 2006, but has yet to be voted on by the Senate. This estate tax bill has been put on hold in the interim. Currently, the 2007 and 2008 exemption amount is \$2 million; in 2009 it increases to \$3.5 million per individual. As it stands, the estate tax will be repealed in 2010 and then will revert back to a \$1 million exemption in 2011.

Contact Kathy if you have questions or would like additional information regarding any of these topics.

Quarterly Corporate Calendar

Bedel Financial Consulting will be closed for business on the following days:

Year 2007

May 28 – Memorial Day
July 4 – Independence Day
September 3 – Labor Day
November 22 - Thanksgiving
November 23 - Day after Thanksgiving
December 25 - Christmas Day

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