

From The Desk of Meredith Callahan

Practical Tips to Enhance Your Financial Freedom

- **There is good news on the horizon for the sluggish United States economy** - Economic data over the past 60 days has suggested that we are well on our way to recovery and that the economy has a head of steam going into 2004. Some industries are slowly starting to regain pricing power. These higher costs will squeeze profit margins to some extent at many firms even if they do choose to pass them along to the consumer. Before anyone overreacts, inflation in 2004 should remain moderate, as the key to overall inflation will be a continued mild wage growth since salaries are the dominant factor most companies have to absorb. It is expected that we will see between 4% and 4½% GDP growth next year, which would be the strongest annual growth we have seen since the mid 1990s.
- **It is very clear by the economic data that business spending is definitely back** - Spending by businesses should exceed 10% in 2004. These factors should ultimately result in a tightening of Federal Reserve monetary policy by the summer of 2004. Fed funds future contracts at the time of this writing are indicating between a .25% and a .5% increase in interest rates by that time. The Fed will likely take this action in an effort to be proactive before having to get out of the way in preparation for next year's presidential election. It is widely agreed that the federal reserve tries to stay as far away from political issues as possible and therefore, will likely have their hands tied in the third and fourth quarters.
- **Even with the Federal Reserve interest rate increase, rates will still remain in historical lows** - It is expected that mortgage rates on the 30 year fixed rate loan will range between 6.75% and 7% through the calendar year of 2004. A lack of inflation pressure argues against any real substantial interest rate increases.
- **Consumers will remain leveraged to their eyeballs in debt in 2004** - Debt service payments as a percentage of disposal income are closing in on the record of 13.5% reached in late 2001. The good news is that much of this debt is mortgage-related as a result of a significant amount of refinances for the purposes of consolidating revolving debt and taking advantage of tax-deductibility. The silver lining in this data is that delinquencies are falling and should continue to fall into 2004, especially if job growth picks up as it is expected to by the second quarter of 2004.
- **A word of caution before switching from your standard land-based phone to cellular phones** - Late last month many businesses were able to shift from land phones to cell phones and save money without changing their telephone numbers. It is, however, important to make sure that your wireless provider keeps that telephone number in directory assistance and in the local telephone books. You also need to be ready for less reliable service during power failures and other sets of natural circumstances. Lastly, you may need to consider switching your internet service to cable modem or satellite if you take this step to save money.
- **Here are some reminders when getting ready for year-end tax planning pertaining to retirement accounts** - You have plenty of time to open a SEP IRA and get the deduction in 2003. The deadline is the due date for filing your tax return plus extensions. For example, if you file your tax return on April 15th, you can literally fund that SEP IRA on April 15th and still receive the deduction for 2003. Be cautious though, as other types of company retirement plans must be in existence in 2003 to get the deduction in that calendar year even if the initial payment isn't made until 2004. An example of this would be a KEOGH for self-employed individuals. These must be set up by the end of this calendar year and if you miss that deadline, you can still establish a SEP as an alternative.
- **If you are intending to make cash gifts to relatives during the holidays, to take advantage of the tax laws, be sure that you know the rules so you can get a "bigger bang for your buck"** - \$11,000.00 a year is the maximum amount you can donate or gift tax-free as a single individual. If you are married, and your spouse consents, the number is doubled to \$22,000.00 in tax-free gift.
- **Health care costs are on the rise...it may be time to rethink your options** - Health care costs are expected to increase by at least 15% in 2004, which would be the fourth consecutive year of double-digit hikes. One thing to consider is evaluating yours and your spouse's employer provided insurance to see what makes the most sense for you and your family given the substantial increases and deductibles.

Have a great month!!