

# BUSINESS

## FINANCIAL REPORT

### Swap out some taxes with bond swapping

By Fred T. Snyder

You probably don't want to spend your summer thinking about your taxes. However, it is always a good idea to take advantage of market opportunities to save taxes when they happen. If you own bonds currently trading at lower prices than what you paid, a technique called bond swapping could provide you valuable tax losses for your 1996 tax bill.

Bond swapping refers to an investment technique used to realize tax benefits, increase income potential or restructure a portfolio as investment needs change. The most common type of bond swapping is a tax swap. A tax swap involves establishing a tax-deductible loss by selling a bond worth less than what you originally paid. You then purchase a similar, but not substantially identical, bond to maintain the benefit of the original investment.

For example, let's assume you're in the 36% tax bracket and two years ago you invested \$50,000 in bonds at par (face value) that mature in 2013, but the bonds have decreased in value and are worth only \$42,150 at current market prices. Let's also assume this year you've already realized \$5,000 in long term capital gains from the sale of other investments. If you sell your bonds, you would establish a capital loss of \$7,850. You can use the first \$5,000 of this loss to offset those capital gains dollar-for-dollar on your tax return.

Further, the remaining \$2,850 of the loss may be used to offset \$2,850 of your ordinary income. (On your tax bill you can use up to \$3,000 of capital losses in excess of capital gains to offset ordinary income each year.) You then take the \$42,150 proceeds from the sale and reinvest them in similar, but not identical, bonds. This example is for illustration purposes only and does not reflect any specific investment.

To reap the tax benefits of this strategy, you should make yourself aware of the wash sale rule. The wash sale rule prohibits you from claiming a capital loss by selling a security if you have

purchased the same or a substantially identical security within 30 calendar days before or after the sale. To not be considered substantially identical, the new bond should come from a different issuer of company or have a different maturity, coupon rate, or quality rating. You may repurchase a bond after waiting 31 calendar days from the sale date, but don't forget that the bond's price may rise or fall during this time.

While you consider your tax consequence with any investment you make, you must also remember to consider your primary investment objectives. An investment professional can

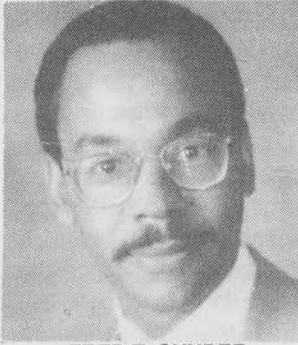
### Time for a fiscal check-up?

If you own a car, you probably bring it in at least once a year for a thorough inspection. An annual inspection is important to make sure your car is safe not only for you and your passengers, but also for anyone else walking or driving around you.

Annual inspections of your financial plan are important, as well. When you review your finances, be sure to check all of the following.

**Brakes — Insurance.** What would happen to you and your family if you were stopped from earning a living by an injury or a serious disease? Would your disability insurance tide you over until you recover? What would happen to your family if you were to die? Would your life insurance proceeds give your heirs the financial security they need? If you're uncertain, it may be time to review your coverage. At the other extreme, you also want to make sure that you're not over insured in any area. If your children are fully grown and out on their own, for example, your need for life insurance may not be as high as it used to be.

**Tires — Investments.** When the stock market performs well, as it did in 1995, your investment vehicles probably move along smoothly. But smooth rides don't last forever. A rise in interest rates, a downturn in a major industry, a feeling that the market is overvalued, or other similar scenarios could bring about a



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outline all the details of bond swapping and, together with you and your tax advisor, help you determine if you should use this strategy in your pursuit of a lower tax bill.

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drastic change. Reviewing your investments on a regular basis allows you to change and adapt, where necessary to market conditions. If a particular investment isn't performing up to your expectations, for instance, you may have to consider selling. In addition, you should regularly review your reasons for investing in the first place. Most people become more conservative with their investments as they age and you may want to alter your investment strategy as your personal situation changes.

**Horn — Taxes.** Lawmakers in Washington have made a lot of noise lately about drastically overhauling the tax laws. Some argue for a flat tax, others for a national sales tax, and still others for a value-added tax. Though no one knows for sure what the outcome of this debate will be, we can keep you abreast of possible changes on both the national and state level on a year round basis. Meeting with us once a year to file your tax return may not be sufficient. Meeting more frequently will provide an opportunity to plan a strategy to minimize taxes as much as possible. And meeting prior to entering into any significant financial transactions will let you evaluate possible tax effects beforehand.

**Headlights — Retirement Planning.** Even if retirement seems a long way down the road, you still have to see if you're headed in the right direction. Too

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## MONEY MANAGEMENT

### Smart ways to save for a new home

Reno — Chances are, if you're looking to buy a house, you have a mental image of the type of home you want. But do you have a clear picture of how you plan to pay for it? Failing to devise and follow a smart savings strategy is one of the biggest impediments to home ownership.

The Nevada Society of CPAs says that people who want to buy a home need to take a long, hard look at their financial situation, determine what they can realistically afford, and then develop and stick to a savings plan to accumulate the necessary down payment and closing costs.

If you're like most prospective home buyers, you'll need one to five years to save enough money. However, you'll want to do more than keep your money in a typical passbook savings account. Here are some investment strategies that CPAs suggest:

**Treasure Notes** — One of the safest investments, "treasuries" are government-insured securities which offer a yield that is usually two to three percent higher than that of passbook savings accounts. Since these notes have one-to-ten year maturities, you can synchronize the maturity of the note with your plans to purchase a home. The notes are usually available in minimum denominations of \$5,000, but some can be purchased in \$1,000 units.

**Municipal Bonds and Funds** — Municipal bonds offer income that is free from federal income tax and, sometimes, state income tax as well. Depending on how long you plan to save for your down payment, consider short- or intermediate-term funds. Participating in a fund, as opposed to buying individual bonds on your own, offers instant diversification and access to a professional money manager who may be able to guide you toward high returns.

Although there is slightly higher risk with intermediate-term bond funds, if you can afford to wait until the maturity date before withdrawing your money, these funds are likely to offer you a better return on your investment. Keep in mind that the longer the average maturity of bonds owned by a fund, the more the share price will drop if market interest rates go up.

**Bank Certificates of Deposit (CDs)** — Although lower interest rates in recent years have made CDs less attractive for long-term investors, they still are a smart investment choice for individuals who have short-term savings goals. The key is to look for the highest-yielding CD possible. Of course, the longer you are willing to keep your money in a CD, the higher the return on your investment. These are among the safest investments because most CDs are insured for up to \$100,000 by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

**Money Market Mutual Funds** — Don't confuse money market mutual funds with bank money market accounts. The latter offer a comparatively small return on your investment. Money market mutual funds reflect higher short-term interest rates more rapidly than bank CDs — which means if rates go up, you're more likely to reap the benefit. They're a good place to put your cash if you're just a year or two away from purchasing the new home. However, if you have more time to save, switch to

higher-yielding investments.

**Stocks** — Investing in stocks offers the potential for the greatest return of all, but it also carries the greatest amount of risk. Although CPAs recommend that you allocate a portion of your savings to long-term growth stocks, you may want to limit how much you invest in the stock market until you get the down payment for your home. Keep in mind, however, that the younger you are, the more you should "power" your portfolio with stocks. You may find yourself more financially secure 10, 20 or even 30 years from now.

Finally, CPAs recommend that you stagger the maturities of your investments. Doing so gives you the flexibility to shift investments into vehicles offering higher yields. It also frees up cash for a down payment in the event you find your dream house and meet your savings goal sooner than you anticipated.

Money Management is a weekly column on personal finance prepared and distributed by certified public accountants. Nevada Society of Certified Public Accountants, 5250 Neil Road, Reno, Nevada 89502.

### National Urban League joins world cyberspace

New York — The National Urban League once again made history when it became the World's first organization to present critical information about African Americans on both the Internet and on a major online service. The fully upgraded Internet site was first operative in December, 1994. The increasingly popular "Leadership Network" was launched on February 2, 1996, on America Online.

The League's homepage is on the Internet at <http://www.nul.org>. The homepage provides valuable insight into key issues with statements, speeches and position papers. Decision makers from all walks of life have traditionally depended upon the League's information to formulate policies and programs. The homepage contains recent speeches of Hugh B. Price, president of the National Urban League, and his weekly column, TO BE EQUAL, that discusses important issues facing America.

The League's latest press releases, press statements, and media advisories are available here. Also articles, legislative updates, publication lists, manuals, policy guidelines, self-help tools, resource lists, position papers and much more will be presented in the future.

"The National Urban League is on the cutting-edge in the way we have put our mission on the Internet," said Hugh B. Price. "We encourage everyone with computer access and a modem to visit our homepage on the Internet's 'World Wide Web.'"

This homepage provides computer users with a way of electronically interacting with the National Urban League. Besides providing a valuable resource for current events, it provides a wealth of resources for students on its affiliates in 114 cities, and it outlines the departments, resources, programs, sponsors, and a list of special events.

In addition to the homepage, the National Urban League also launched the Leadership Network, a public "Community Development" area on America On-Line. Through continuous postings from the League, its affiliates in 114 cities, and others, the

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