

Consumer Reports Money Adviser

YOUR NEXT GREAT CAREER
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Can you trust your financial planner?

Use our tough test to ensure that an adviser makes the grade.

Showing up at the doorstep of a financial adviser's office can make you feel as vulnerable as if you were stretched out on an operating table. Your financial guts are out in the open awaiting treatment. Will it be successful? Or will your life savings end up on life support?

Falling into the hands of an unscrupulous adviser is easier than you think. The number of federally registered financial advisory firms subject to pending disciplinary action has jumped almost 30 percent in the past year, according to a May 2004 report by the Investment Counsel Association of America, a nonprofit trade group representing investment-adviser firms registered with the Securities and Exchange Commission (SEC).

Even if you're a pretty good judge of character, don't bet on being able to spot the liars. "A good financial planner has the ability to put you at ease and inspire your trust, but the trouble is, those are the same qualities you find in successful con artists," says Patricia Struck, chair of the investment-adviser section at the North American Securities Administrators Association (NASAA), an organization of state regulators

whose goal is investor protection. "We know from investor complaints we investigate that the people who seem the most trustworthy on the surface are often the best liars."

Truth be told, even if you're working with a top-notch professional, you could lose money. No one can predict the stock market. You can, however, cut your odds of becoming a target of outright fraud or plain-vanilla incompetence by putting your adviser to the test before trusting him or her with your money.

"Many people put more time and effort into researching which car or digital camera to buy than they do checking out the qualifications of someone who will be managing their life savings," says Barbara Roger, director of investor protection at the Consumer Federation of America, a consumer-advocacy group.

Financial planners, alas, are too numerous for Consumer Reports Money Adviser to rate. But we can tell you how to test the planner you're considering or the one you already have. We'll explain how to dig up the dirt on advisers who have strayed from the path of rectitude and bamboozled their clients. We'll also tell you

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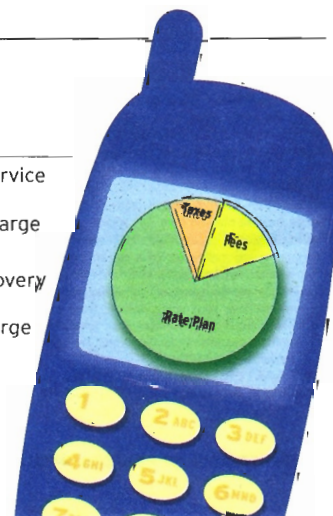
where the money goes

Phony charges

Advertised rates for cell-phone plans don't at all reflect your total monthly costs, as the pie chart representing one staffer's bill shows. The "regulatory cost-recovery fee" is not even government mandated and may include costs for services you don't yet have.

Fees

- Federal Universal Service Charge
- Local wireless surcharge
- New York state fee
- Regulatory cost-recovery fee
- MTA telecom surcharge
- ST telecom excise surcharge



What if you get sued?



It could happen to anyone, anytime, anyplace. And for no reason other than plain bad luck. Dallas attorney Darrell Cook remembers the case in which a neighbor's dog got loose, ran onto his client's property, and bit someone else's child. Although his client's property just happened to be the scene of the incident, he was sued for negligence. The settlement: \$45,000.

In another case, Cook says, he represented a family after their lawn mower ran over a rock, which was propelled clear across the street, and into a neighbor's arm. The arm broke from the impact and sparked a legal feud.

"People can't control lawsuits," says Cook. "They're almost an

inevitable part of life." In 2002 alone, Americans filed about 760,000 state-court torts, according to the National Center for State Courts.

Most cases involve run-of-the-mill activities—a car accident, a tumble on wet ground near the backyard pool, a beaming on a Little League field. So if lawsuits are such a common occurrence, is there any way to limit the potential financial damage?

We asked experts, who supplied something that in legal circles is as rare as litigation is common: free advice. The biggest way you can protect yourself, they say, is with the proper liability insurance. Here's how to figure out if you've got enough coverage, as well as some other recommendations on steering clear of courtrooms.

1

STOCK UP ON INSURANCE

The majority of lawsuits are auto-related; many others involve accidents in the home or in public. That's a silver lining, because if you're sued for negligence on your property—or anyplace else (even if you're in-line skating 2,000 miles from home and crash into a trial lawyer who has osteoporosis)—the accident is generally covered by homeowners or renters insurance. Your insurer will pay for your legal defense and court fees. And if you're found guilty of negligence, as opposed to claims involving intent, such as assault or trespass, the insurer pays the judgment up to the cap on your liability coverage, plus defense costs. A basic homeowners policy carries \$100,000 in liability coverage. For about \$12 a year, you can increase it to \$300,000, and for \$45 you can raise it to \$500,000.

Auto liability coverage can be pricier. The Insurance Information Institute recommends \$100,000 of bodily injury protection per person and \$300,000 per accident. But if your net

worth is more than \$300,000, you should beef up your policy to \$250,000 per person and \$500,000 per accident. The protection is well worth the extra cost. In a 2001 survey of U.S. households with annual incomes in excess of \$100,000 conducted by the Chubb Group, nearly two-thirds conceded that their liability protection had not kept pace with the growth in their assets. The problem is, the more you have, the more vulnerable you are to lawsuits. A \$1 million judgment is not out of the question if, for instance, a child is paralyzed in a backyard diving incident.

If your assets exceed \$1 million, buy a so-called umbrella policy, advises Ray Crisci, auto and excess-liability product manager for Chubb Personal Insurance in Whitehouse Station, N.J. Such a policy offers extra liability coverage. You can get \$1 million in coverage for about \$200 to \$300 a year (for two cars and one home) or \$3 million in coverage for about \$400 to \$500 a year.

2

GET IT IN WRITING

Aside from accident-liability cases, another common type of civil lawsuit involves business deals or agreements gone bad. Say you buy a boat with your neighbor and end up fighting over his plans to sail to the Bermuda Triangle for his next family vacation. No insurance policy covers contractual legal disputes unless the lawsuit includes an allegation of negligence. But you can lower the odds that a suit will occur by getting everything in writing.

To come up with a document that clearly defines the rights and obligations of all involved, you should ask questions of all the parties: How many days a year are you entitled to use the boat, and where can you take it? Who pays for maintenance, and when? Or, if you're dealing with a business project, you might want to know

how hiring decisions are going to be made, and who approves expense reports. Even the smallest issues need to be addressed in carefully prepared documents. For added protection, run the documents by an attorney and scan them into a computer for safe-keeping. In addition, make sure everyone involved gives his or her written approval before you go ahead with any transaction related to the initial agreement. Keep originals in a safety-deposit box.

"Nothing makes a relationship sour as when you bring money and business decisions into it," says P. Christopher Ardalan, a civil- and criminal-litigation attorney in Sherman Oaks, Calif. But if something goes wrong, you'll need something in writing to prove your version of the story along with corroborating witnesses.

3

DO IT YOURSELF—CAREFULLY

If your case qualifies for small-claims court, which frequently limits damages to amounts less than \$5,000 but in some states as much as \$15,000, you'll probably be representing yourself. It may not be worth spending the money on a lawyer for a small case, or your state may not allow legal representation. If you go it alone, you can find resources at www.abanet.org/legalservices/findlegalhelp/selfhelp.html.

But definitely leave the bigger cases for the professionals. When it comes to lawsuits that might involve tens of thousands of dollars or more, don't do anything without first consulting a lawyer. Cook told us stories about hapless clients who, for example, were sued in a neighboring state for a contract dispute that began in their own state. By sending a letter denying the allegations to the court, they basically accepted that the neighboring state had jurisdiction, adding needless expense and legal difficulty to what could have been a simpler case if a lawyer from the neighboring state had initially challenged the jurisdiction.

"One I see a lot is the person who thinks he's going to handle his own case but doesn't file an answer to a complaint on time," says Cook. "By the time they come to me, not only do we have to fight the lawsuit, but we first have to get the default set aside, something that isn't always so simple to do."

4

FIND THE RIGHT ATTORNEY

When hiring a lawyer, be sure he or she has the appropriate experience for your case, and don't forget to check the lawyer's references thoroughly. Many state and local bar associations offer helpful attorney-referral services. For a list of these organizations, go to www.abanet.org/legalservices/findlegalhelp/lawrefdirectory.html. Organizations that meet American Bar Association standards are highlighted at this site with an ABA seal of approval.

You can also find free services online to help you locate the appropriate lawyer. For a listing of these agencies, visit www.abanet.org/legalservices/findlegalhelp/hirelawyer.html.

Although some attorneys offer flat-fee plans, most charge the old-fashioned way: by the hour. Fees can range from \$150 an hour to \$400 and up, depending on the lawyer's experience, location, reputation, and track record. Remember that a more experienced and skilled attorney might be able to handle a legal matter much more quickly—and successfully—than a rookie. As a result, the full price of the job could end up being a lot cheaper even if the price per hour is higher.

Law lite: Some legal matters boil down to a simple document. To write a will, health-care directives, and powers of attorney, you can use Quicken WillMaker Plus software from Nolo (www.nolo.com). It costs \$49.95 and works only on Windows operating systems. After preparing the documents, pay a lawyer to review them.

deal with it

Speed-read your mutual-fund mail

The deluge of annual and semiannual shareholder reports can be so relentless that it's easy to throw up your hands and just start pitching the reports straight from the mailbox into the trash. Is there a way to manage the paperwork without spending hours a night reading mutual-fund literature? Investment pros say you can learn what you really need to know by zeroing in on these five key topics:

► **Investment objectives.** Check if a mutual fund's aim still suits you. If you bought a fund because it invested in small-cap Japanese stocks, for instance, but it has expanded its holdings to all Japanese stocks, you may want to reassess. So when you get a shareholder report, check the graphic labeled "Investment Focus" in the fund-profile section and see whether the fund has altered its strategy.

► **Fees.** The lower a fund's fees, the more of its profits end up in your pocket. So it's crucial to track fees even if you own a low-cost index fund. Watch out for back-end loads or 12b-1 fees. Also, if you want to find out how much it will cost to invest a hypothetical \$10,000 in a fund over a 1-, 3-, 5-, or 10-year period, check out the fee table that funds must include in their prospectuses. The Securities and Exchange Commission requires fund companies to publish such tables, along with performance bar charts and annual returns tables. Check in the table of contents for the expense ratio table or administrative fees.

► **Assets under management.** If shareholders are bailing out of a fund and assets under management are dropping, you may be in for an increase in management fees. With fewer investors, your share of the fund's expenses may go up. A huge influx of assets may also signal trouble. If a small-cap stock fund grows into a \$20 billion colossus, for example, it may no longer be nimble enough to meet its investment objective. You can track assets by looking at the financial highlights in the shareholder report.

► **Management.** If a manager who has done well for you departs, you may want to follow him or her to a new fund. Even if you plan to sit tight, you probably want to check out the new manager's track record. Find out what fund the manager came from and then go to www.morningstar.com for performance figures.

► **Performance.** You probably monitor your fund's performance by checking its total return on the Internet or in the newspaper. You can use the performance summary data in shareholder reports to compare your fund's performance over the long haul with a benchmark such as the Standard & Poor's 500 Index. You should also check at www.morningstar.com to see how your fund stacks up against others in its peer group.

Once you've made like Evelyn Wood and whipped through all the important parts of your shareholder reports, feel free to toss them. Just hang on to the latest prospectuses if you want to contact the fund company. \$