

Building Capital

FinArc Investments, Inc.

Matthew Slaney, CFA
President
315 Norwood Park South
Norwood, MA 02062
781-762-8080
877-7FINARC
matthew.slaney@finarc.com
www.finarc.com

Your team at FinArc Investments hopes that you are enjoying your summer. As we do every quarter, we are providing you with content related to our work that we hope will interest you .

In this issue, we offer a look at "Investing Green" and some considerations in making wise decisions. You can quiz yourself and friends on some important general financial questions. With many clients sharing stories about their recent and planned vacations, we have included some ideas regarding travel. We conclude by addressing the common challenges of aging parents and paying for college. If you would like to discuss these or other financial topics with us, please let us know. We hope you enjoy the final weeks of summer.

Patricia, Paul, John and I appreciate your ongoing trust and allowing us to help you to achieve your financial goals. Please don't keep us a secret from others who may find similar value in our work as you do.

3Q14 Newsletter

Can You Make Some Green by Investing Green?

Test Your Knowledge of Financial Basics

Why Not Make Your Next Trip a Volunteer Vacation?

My parents can't manage alone anymore. What should I do?

Can You Make Some Green by Investing Green?

The release in April of the long-awaited report from the United Nations' Intergovernmental Panel on Climate Change has spurred renewed discussion of ways to combat climate change and its effects. The report, written by leading scientists from around the globe, says that to keep greenhouse emissions below critical levels, the world must make substantial changes--and quickly--in how energy is produced and consumed.

That finding has focused fresh attention on so-called "green investing." Here are some considerations that can be especially important in this arena.

No shortage of choices

If you're interested in exploring green investments, you have a variety of possible options. They include renewable energy sources, technologies that can improve the environmental footprint of existing energy sources, clean water, clean air, and technologies that can help reduce overall consumption, particularly of nonbiodegradable substances.

The broad scope of green technologies can make it difficult to choose among the myriad investment opportunities, especially if you don't have expertise in a particular field or the time or energy to acquire that knowledge. Unless you're familiar with the science behind a specific company's product or service, you might benefit from casting a wider net. Though diversification can't guarantee a profit or eliminate the possibility of a loss, it can help you manage the amount of risk you face from a single company.

A great technology is not the same thing as a great stock

Even if you have special knowledge of a particular field, don't let that blind you to a company's business fundamentals. If you're considering a small company stock, don't forget that small caps can be extremely volatile. In addition to the risks involved with all stocks, a small-company stock can be affected disproportionately by the actions of a single large investor or a report by a single investment

research department, especially if the stock is thinly traded. If that worries you, one alternative might be to invest in larger companies that have made a significant commitment to initiatives in that field and that might have other business advantages. Though they may not have a small company's rapid growth potential or appeal as a possible takeover target, they often have more resources than a smaller company to make acquisitions or manufacture and market globally more efficiently.

Important considerations

Certain factors that apply to all stocks are especially important when considering an investment in green companies.

What's the competitive landscape? An idea that seems promising can quickly be superseded by the latest innovation. While it's difficult to forecast technical turning points, it's helpful to know the major players in that space, their key development efforts, and roughly how they're positioned.

How dependent is a company on external support? Many countries are making significant green investments, racing to establish dominance on the global playing field of green technologies. Emerging technologies often are dependent on some form of government support, such as tax credits, loan guarantees, or sponsored pilot programs. However, political support for such initiatives can come and go, as can investor enthusiasm for specific technologies.

How capital-intensive is the technology? Many green technology companies may have little or no profits yet but a substantial need for capital from a cash flow standpoint or as a result of the technology itself. That could make a company vulnerable to a potential credit crunch or rising borrowing costs, which could affect its ability to develop and market even the most promising technology.

Note: *All investing involves risk, including the potential loss of principal, and there can be no guarantee that any strategy will be successful.*



Test Your Knowledge of Financial Basics



A little knowledge can go a long way in pursuing your financial goals. For more information about the topics in this article, or for other personal finance-related questions, speak with a trusted financial professional.

All investing involves risk, including the possible loss of principal.

Working with a trusted financial professional is one of the best ways to help improve your overall financial situation, but it's not the only thing you can do. Educating yourself about personal finance concepts can help you better understand your advisor's recommendations, and result in more productive and potentially more prosperous financial planning discussions. Take this brief quiz to see how well you understand a few of the basics.

Questions

1. How much should you set aside in liquid, low-risk savings in case of emergencies?

- a. One to three months' worth of expenses
- b. Three to six months' worth of expenses
- c. Six to twelve months' worth of expenses
- d. It depends

2. Diversification can eliminate risk from your portfolio.

- a. True
- b. False

3. Which of the following is a key benefit of a 401(k) plan?

- a. You can withdraw money at any time for needs such as the purchase of a new car.
- b. The plan allows you to avoid paying taxes on a portion of your compensation.
- c. You may be eligible for an employer match, which is like earning a guaranteed return on your investment dollars.
- d. None of the above

4. All of the money you have in a bank account is protected and guaranteed.

- a. True
- b. False

5. Which of the following is typically the best way to pursue your long-term goals?

- a. Investing as conservatively as possible to minimize the chance of loss
- b. Investing equal amounts in stocks, bonds, and cash investments
- c. Investing 100% of your money in stocks
- d. Not enough information to decide

Answers

1. d. Conventional wisdom often recommends setting aside three to six months' worth of living expenses in a liquid savings vehicle, such as a bank savings account or money market mutual fund. However, the answer really depends on your own individual situation. If your (and your

spouse's) job is fairly secure and you have other assets, you may need as little as three months' worth of expenses in emergency savings. On the other hand, if you're a business owner in a volatile industry, you may need as much as a year's worth or more to carry you through uncertain periods.

2. b. Diversification is a smart investment strategy that helps you manage risk by spreading your investment dollars among different types of securities and asset classes, but it cannot eliminate risk entirely. You still run the risk of losing money.

3. c. Many employer-sponsored 401(k) plans offer a matching program, which is like earning a guaranteed return on your investment dollars. If your plan offers a match, you should try to contribute at least enough to take full advantage of it. (Note that some matching programs impose a vesting schedule, which means you will earn the right to the matching contributions over a period of time.)

Because 401(k) plans are designed to help you save for retirement, the federal government imposes rules about withdrawals for other purposes, including the possibility of paying a penalty tax for nonqualified withdrawals. You may be able to borrow money from your 401(k) if your plan allows, but this is generally recommended as a last resort in a financial emergency. Finally, traditional 401(k) plans do not help you avoid paying taxes on your income entirely, but they can help you defer taxes on your contribution dollars and investment earnings until retirement, when you might be in a lower tax bracket. With Roth 401(k)s, you pay taxes on your contribution dollars before investing, but qualified withdrawals will be free from federal, and in many cases, state taxes.

4. b. Deposits in banks covered by the Federal Deposit Insurance Corporation are protected up to \$250,000 per depositor, per bank. This means that if a bank should fail, the federal government will protect depositors against losses in their accounts up to that limit. The FDIC does not protect against losses in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if those vehicles were purchased at an insured bank. It also does not protect items held in safe-deposit boxes or investments in Treasury bills.

5. d. To adequately pursue your long-term goals, it's best to speak with a financial professional before choosing a strategy. He or she will take into consideration your goals, your risk tolerance, and your time horizon, among other factors, to put together a well-diversified strategy that's appropriate for your needs.

Why Not Make Your Next Trip a Volunteer Vacation?



One option for finding volunteer vacation opportunities in the United States or overseas is the nonprofit organization Just Give. To view a list of resources for potential volunteers, visit the organization's website, www.justgive.org.



Is your idea of a perfect vacation spending time alone on a beach with a good book? Or would you prefer a more active vacation where you are part of a group, constantly challenging yourself, and using your talents and skills to help others? If the latter sounds more appealing, then a volunteer vacation might be right for you.

Why take a volunteer vacation?

Having the chance to give back, meet new people, form friendships, and immerse yourself in a different culture are some of the top reasons to take a volunteer vacation. And no matter why and where you choose to travel, you'll have experiences that are not available to the average tourist.

A volunteer vacation also allows you to work with others who share your interests. For example, if you love the outdoors, you can work with park rangers on a national parks project in the United States or travel with a conservation group to Peru. Or if you've always wanted to work with children, you can find a service project at an orphanage in Haiti, or volunteer at a camp for children with special needs in Hawaii.

Who can serve as a volunteer?

Whether you're a solo traveler, a retiree, a student, a family with younger children, or a grandparent with teenage grandchildren, you can find a suitable volunteer opportunity. Many vacations don't require any experience—just a willingness to help and enjoy the camaraderie of working with individuals from your host community and members of your volunteer group. However, you'll get more out of your trip if you find one that matches your interests, skill set, and stamina level. Though you can choose to travel to a remote location or an underdeveloped country, you can also make a difference in a less adventurous setting. For example, you can help teach English at a school in a major city, work on an art conservation project in a museum, or care for injured animals at a zoo. The choice is yours.

What can you expect from your trip?

Trip length varies, but many last from one to four weeks. During that time, you'll be expected to devote a substantial number of hours to project work.

Yet volunteer vacations aren't all work and no play. Trips generally incorporate rest days or leisure periods where you're free to explore on your own or participate in a group tour, giving you unique insight into the area and a chance to unwind.

How much will your trip cost?

Some people are surprised to learn that there's a cost associated with volunteering, but you'll generally need to pay for your own travel expenses. Your trip may cost hundreds or thousands of dollars, depending on your destination, itinerary, and accommodations.

You may be able to offset part of the cost of your trip by deducting certain trip-related expenses when you file your federal income tax return. To get any tax benefits, your trip must be sponsored by a qualified organization (check with the charity or the IRS); the personal element of your trip must be insignificant (i.e., the time spent on pleasure, recreation, or vacation); and you must itemize your income tax deductions. You can generally deduct actual unreimbursed costs related to your volunteer service (such as airfare, lodging, and meals) but you can't deduct the value of your time or services. These are just general guidelines—for more information, ask your tax advisor and review IRS publication 526, Charitable Contributions.

What questions should you ask?

Before you sign up for a volunteer vacation, it's very important to make sure that you're traveling with an organization you trust. Trips may be sponsored by churches, national or global nonprofit volunteer organizations, or for-profit companies. Here are some of the questions you should ask before signing up. Some of this information may be found in literature provided by the sponsoring organization:

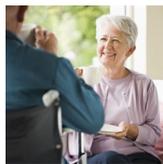
- How long has the group or organization been conducting volunteer vacations?
- How large is the volunteer group?
- How experienced are the team leaders? How well do they know the culture and the area?
- Will training be necessary, and if so, when and where will it be provided?
- What does the trip fee cover? Airfare? Meals? Transportation to the work site?
- Are costs or fees refundable? Make sure you read all policies and understand what will happen if you're unable to travel.
- What about insurance? You may be asked to provide proof of health insurance, or if traveling overseas, purchase medical and emergency evacuation coverage.
- How do you prepare, and what will you need to bring? You should be given a checklist of tasks to complete before your trip, and packing guidelines.

FinArc Investments, Inc.

Matthew Slaney, CFA
President
315 Norwood Park South
Norwood, MA 02062
781-762-8080
877-7FINARC
matthew.slaney@finarc.com
www.finarc.com

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Please contact FinArc Investments, Inc. if you wish to add or modify any restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV.



My parents can't manage alone anymore. What should I do?

Are one or both of your parents having health problems, suffering mental lapses, or just slowing down with age? Do you find they can't manage on their own anymore? If so, you'll want to consider the various living arrangements that are available to older individuals. Before you begin, however, you'll want to talk to your parents and siblings.

Sometimes the best option is to have your parents move in with (or closer to) you. That way, you avoid having to use your parents' assets (or your own) to pay for a nursing home or other facility. You won't have to worry about your parents potentially receiving inadequate care from strangers. And your parents will probably appreciate the gesture of love and self-sacrifice on your part. However, the cost of feeding, clothing, and caring for your parents can be high, especially if you're forced to give up a job to be home with your parents. And don't underestimate the emotional and psychological impact.

What if your parents' care is more than you can handle? You may then wish to consider some

type of assisted-living arrangement. The broad term "assisted living" encompasses a range of facilities and services designed to help seniors who can't live independently. The assistance provided may be short- or long-term and may focus on social services, medical care, or some combination of the two. Depending on your parents' conditions and needs, one or more of the following assisted-living arrangements may be worth considering:

- Nursing homes
- Assisted-living communities
- Continuing care retirement communities
- Alzheimer's/dementia care specialty facilities
- Retirement communities
- Active senior communities
- Home health care
- Hospice care
- Adult day-care services

And don't be afraid to talk to a social worker, your parents' physicians, or other professionals. They can offer you support, and recommend solutions that best meet your parents' needs.



How much money should a student borrow for college?

There's no magic formula to determine how much you or your child should borrow to pay for college. That being said, there is such a thing as borrowing too much. How much is too much? Well, college counselors typically recommend that students borrow no more than the amount they expect to earn in their first year out of college, which in turn depends on a student's individual major and job prospects. So, for example, a student planning to get an engineering degree might borrow about \$50,000 or \$60,000 if he or she expects to obtain a job after college paying that much, while a student majoring in social work might borrow much less.

But this guideline is just that--a guideline. Just as many homeowners got burned taking out larger mortgages than they could really afford (even though their lenders may have told them they were "qualified" for that amount), many students are getting burned borrowing amounts that may have seemed reasonable at first glance but now in reality are not.

Remember, student loans will need to be paid back over a term of 10 years or longer. What if

the engineering graduate doesn't have that steady, well-paying job for 10 years? What if he or she decides to step out of the workforce to care for children? What if the company downsizes? What happens when other expenses like housing, utilities, car payments, daycare, and home repairs come down the pike? What if he or she wants to go on to graduate school? Any interruption in the payment of these student loans via deferment or forbearance requests will only add to a borrower's overall balance.

According to the Project on Student Debt, 71% of students who graduated from college in 2012 had student loan debt, and the average balance was \$29,400 (*Student Debt and the Class of 2012*, December 2013). With a 10-year term and a 3.8% interest rate (the current rate on federal Stafford Loans), the monthly payment would be \$295. But borrow a bit more, say \$40,000 total, and the monthly payment jumps to \$401. And these figures are conservative, because the interest rates on federal Stafford Loans and private student loans have nowhere to go but up. So student borrowers beware! Don't be led blindly into excessive student loan debt based on a guideline you didn't create.