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About Beacon Financial Advisors Ltd.

Beacon is an independent fee-only advisor with a clear mission statement: To provide our clients long-term value-added financial counsel and investment performance with exceptional service.

Beacon is a Registered Investment Advisor with the US Securities and Exchange Commission.

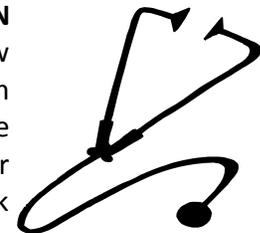
Beacon's Advisors **MARCEL HEBERT** has a B.S. in Finance, an M.B.A., and is a Certified Financial Planner (CFP) licensee and a Chartered Financial Analyst (CFA) charterholder.

JOSH HEBERT has a B.S. in Accounting, an M.B.A., and is a Certified Internal Auditor (CIA) and a Certified Financial Planner (CFP) licensee.

CHARTING THE COURSE
Special Series of Briefs About Beacon's Client Services

BEACON DIAGNOSES A CLIENT'S FINANCIAL HEALTH: A 1040 Checkup!

Cash flow is the lifeblood of any business—or any household for that matter. In fact, **BEACON** can diagnose more about a client's financial health from a review of their cash flow than from any other source. A careful review of their tax return, the US Form 1040, can provide vital information about cash sources and uses, and identify a key component of a financial plan—discretionary cash flow. We define it as the amount left over after all obligatory cash outlays. Aside from the 1040, **BEACON** uses all a client's other financial documents to gather the cash sources and uses that do not appear on the tax return. Here's a quick review of how **BEACON** uses Joe Q. and Joan G. Investor's 1040 to diagnose their financial health.



TOTAL SOURCES OF CASH

We look at the most recent 1040 and tally the income items for which the client received cash. These include wages, salaries or self-employment income; interest and dividends (including tax-exempt interest and reinvested interest and dividends); and other investment income like rents or royalties. We don't include capital gains because that's closer to principal than income. To this, add cash sources that weren't taxable or that didn't appear on the 1040, such as insurance reimbursements of gifts received.



CASH USES

Next, we total the client's cash uses. These include individual retirement plan or tax-qualified retirement plan contributions (employer contributions), medical costs, property and miscellaneous taxes, interest costs and charitable gifts. If the client itemizes deductions, many of the cash uses will be on the Schedule A.

We then include cash uses that don't appear on the 1040, such as principal and non-deductible interest payments (on all debt) as well as insurance premiums, education outlays and household expenses. We then add these items to our clients income tax obligations listed on page 2 of the 1040.

DISCRETIONARY CASH FLOW

Now, for the grand finale. We then subtract our client's cash uses from their cash sources to arrive at their discretionary cash flow—the money left over for consumption, debt reduction, gifting, and savings/investment. Identifying a client's discretionary cash flow can



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help make important financial decisions. For example, Joe and Joan's total savings into their IRAs and SEP-IRA approximate 10.5% of their total cash sources. We prefer to see pre-retirement savings at 15%+, so we'll look closely at how they can allocate more to savings v. other current cash uses.

USE THE 1040 LIKE AN X-RAY

Here are other ways **BEACON** uses the client's 1040 to diagnose financial health:

- ⇒ Rebalance the portfolio. If their interest income is much higher than is needed for today, we might look more for non-taxable growth vehicles.
- ⇒ Tax management. We look for any loss carryforwards from previous years that can be effectively offset.
- ⇒ Itemized deductions. Should the client "bunch" 2 years real estate taxes into 1? If mortgage interest is high, does refinancing make sense? Should charitable giving be done with appreciated securities instead of (after-tax) cash? Are there any Schedule A deductions that could be legitimately deducted on Schedule C or elsewhere?

Summarizing, **BEACON** uses our client's 1040 to give a thorough checkup each year. We counsel that saving aggressively, investing prudently, and living frugally should keep all our clients in good financial health now and in all the years to come!

