MONEY MAKEOVER

The Boston Globe

Analyst seeks outsider's take on finances

By Lynn Asinof, Globe Correspondent | March 8, 2009

Tara Conte understands cash flow, return on investment, and how to read a balance sheet. A hospital budget analyst, she's got a degree in finance and a good head for numbers. But when it came to her own finances, she wanted a second opinion.

So she applied for a Boston Globe Money Makeover. "Since buying a condo in 2007, I feel like I haven't been able to save as much as I'd like," the 27-year-old Haverhill resident wrote in her application. "I'd like an outside source to look at my budget and expenses and give me advice on how to meet my financial goals."

Conte's immediate concern: Figuring out if she could afford to sell her $182,000 condo and buy a different home. The condo, she said, had turned out to feel too much like a dorm. In the current market, however, Conte would take a loss, since her unit is now worth at most only $160,000. That left her worrying that she had gotten in over her head financially by buying "too much condo."

Fee-only financial adviser Dana Levit of Paragon Financial Advisors in Newton sat down with Conte. The overall conclusion? Conte, a former bank teller, was doing a great job, budgeting for long-term and short-term expenses, saving for retirement, and starting to build assets. But that didn't mean that Conte was ready to start shopping for a house, Levit said.

The reason was in the numbers. Conte is now spending about 50 percent of her income on housing. That's fine, Levit said, reassuring Conte that her housing costs were far from excessive. "I normally like to see people spend no more than 40 percent, but in the Boston market that's hard," Levit explained.

While Conte contributes 10 percent of her salary to her 403(b) retirement plan, a quick cash-flow analysis showed she is just breaking even. Her monthly expenses for mortgage, property taxes, and condo fees add up to $1,518. If she wanted to buy a new home - which she estimates would cost $200,000 - she'd have to pay off the $170,000 left on her mortgage with the proceeds from a $160,000 sale, minus transaction costs. Then she would have to take on an even bigger mortgage, which would cost about $200 more a month than her existing loan.

"I'd be worried about taking on a $200,000 house right now," Levit said, noting that any house in that price range would likely be a fixer-upper that would come with lots of additional repair and maintenance expenses.

Levit suggested that Conte put the house project on hold, tackling some more pressing financial projects first. Conte is both frugal and responsible with her money. For example, she saves for her Christmas expenses by tucking money into a Christmas Club account. But Levit said she currently doesn't have enough readily available cash to handle a real financial emergency. So the planner suggested Conte build up her emergency fund, taking a two-tiered approach that uses both her bank account and her tax-deferred retirement plans.

Rule of thumb, Levit said, is to have at least six months of expenses stashed in an easily accessible cash account. In Conte's case, that's about 30 percent of her salary, or $21,000. But Levit said that only a third of that money - or $7,000 - needs to go into a taxable, interest-bearing bank account or online savings account.

Levit said Conte should build up the remaining $14,000 of emergency funds by allocating a share of her workplace retirement plan contributions to a money market fund. Although there is a 10 percent penalty on most retirement plan withdrawals, this cash would only be used in case of a true emergency, she explained. And since true emergencies are rare, the money would likely continue to benefit from tax-deferred growth.

Conte already has about $16,000 in an interest bearing checking account. That amount more than covers the first part of Levit's proposed emergency fund plan. Given current economic conditions, however, Levit liked the idea of keeping this extra money available in the cash account. "In these economic times, it makes sense to have a little bit bigger cushion," she said, urging Conte to stick with the goal of building her retirement plan cash up to $14,000.

Just as Conte uses her Christmas Club account to save for the holiday, Levit suggested that she start putting away money for her next car. The need isn't immediate, but Levit said this approach to savings makes it easier to buy big-ticket items like cars and vacations without imploding the household budget.

Levit said she was pleased to see Conte had diversified her retirement plan holdings, thus limiting her exposure to any one or two sectors of the market. But with 34 different investments in three different retirement plans, Levit said Conte's $25,000 portfolio was actually over diversified. Her recommendation: First, roll the two 401(k)s from previous employers into an individual retirement account. Then change the allocation for any new money contributed to her current 403(b), dividing it equally between five funds - an S&P index fund, a small-cap blend index fund, an international equity index fund, a bond fund, and a money market fund.

Conte said the toughest part of her makeover wasn't hearing the news that she needed to hold on to her condo a bit longer. Rather it was getting all her financial information in order so that Levit could review the numbers. "I got stuck on gathering everything together," she said, noting that balancing her checkbook had been particularly daunting. "But once I got going, I felt pretty good about it."

To be considered for a Money Makeover, fill out the application at the "Your Money" section of www.boston.com/business, or call **617-929-2916** *.* ■