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Lynn's Top Five
Some "Tips" about TIPS!

By Lynn Ballou, EA, CFP

Are you nervous about inflation? Because of inflation concerns, TIPS, also known as Treasury Inflation Protected Securities, are in the news frequently as a potential solution for the inflation or interest sensitive investor.

Let's talk about some reasons TIPS are a hot topic and learn more about how they really work.

1) What are TIPS? TIPS are a type of investment issued by the US Treasury whose payouts adjust with inflation and deflation. These payout adjustments are done semi-annually, and it's not the stated interest rate of TIPS that is adjusted, but rather the underlying PRINCIPAL. So if I buy, let's say, a \$1000 TIPS with a 2% interest rate, and then CPI increase by 3%, my underlying adjusted principal is now \$1030 and thus the interest I receive will be \$1030 times 2% instead of \$1000 times 2%. This is why TIPS are of great interest to investors vulnerable to CPI volatility, especially retirees on a fixed income. The most important benefit of TIPS is the protection from the risks of unexpected and unknown inflation.

2) Tax Treatment: Investors receive some of the same tax benefits from TIPS that also come from Treasuries --- the interest income earned is state and local tax free. HOWEVER, and this is a big turn off for some: you will also receive

a 1099 on any INCREASES in your principal each year (see #1 above) and they are TAXABLE each year even if you continue to hold them. So if you are a TIPS investor put money aside for that!

3) Liquidity Issues: TIPS are very liquid and trade daily in the secondary market. You do NOT have to hold them to maturity. So if you want out early, you can get out fairly easily. Unlike many other fixed income investments, their trading range has historically been much less volatile because they adjust regularly to inflation. However, remember that past performance is no guarantee of future results.

4) Valuation doesn't always rise: Guess what? Unlikely though it seems now, TIPS also adjust DOWNWARD for deflation --- you may remember that this was a big concern earlier this year! Your interest RATE won't change, but if the underlying value changes, you can receive less income and if you sell during a deflationary period in the open market, you could receive less back from that sale than you paid for your TIPS. Good news: If you hold them to maturity you will receive either the adjusted principal or the original principal, whichever is greater.

5) How to Purchase: TIPS are issued in 5, 10 and 20 year terms with a stated interest rate. You can

buy them from your investment advisor, some banks and you can buy them direct through the Treasury Direct program. They aren't issued daily, so if you want one immediately, you might prefer being a buyer in the secondary market of an existing issue.

TIPS are backed by the full faith and credit of the US Government as to timely payment of principal and interest and, if held to maturity, offer a fixed rate of return. If redeemed prior to maturity you may receive back less than your initial investment. A great website for investors interested in learning more about TIPS is the Treasury Director Research Center Website as follows: <http://www.treasurydirect.gov> and then search for information on "TIPS." For the right investor, and especially in these historic times, they could be a truly advantageous asset!



Lynn Ballou is a Certified Financial Planner (CFP) and co-owner of Ballou Plum Wealth Advisors, LLC, a Registered Investment Advisory (RIA) firm in Lafayette. Lynn is also a Registered Principal and Branch Manager with LPL Financial (LPL). As such, she is required by securities regulations to add the following information to this column: The opinions voiced in this material are for general information only and not intended to provide specific advice or recommendation for any individual. Securities offered through LPL Financial, member FINRA/SIPC. Reach Lynn Ballou at lynn@ballouplum.com

Lamorinda Home Sales continued



LAFAYETTE	Last reported: 9	
LOWEST AMOUNT:		\$399,000
HIGHEST AMOUNT:		\$2,300,000
MORAGA	Last reported: 9	
LOWEST AMOUNT:		\$550,000
HIGHEST AMOUNT:		\$1,300,000
ORINDA	Last reported: 7	
LOWEST AMOUNT:		\$705,000
HIGHEST AMOUNT:		\$1,340,000

Home sales are compiled by Cal REsource, an Oakland real estate information company. Sale prices are computed from the county transfer tax information shown on the deeds that record at close of escrow and are published five to eight weeks after such recording. This information is obtained from public county records and is provided to us by California REsource. Neither Cal REsource nor this publication are liable for errors or omissions.

LAFAYETTE

- 4115 Canyon Road, \$2,300,000, 5 Bdrms, 3707 SqFt, 1957 YrBlt, 10-2-09
- 3366 Carlyle Terrace, \$780,000, 4 Bdrms, 1730 SqFt, 1955 YrBlt, 9-18-09
- 1415 Eagle Point Court, \$935,000, 4 Bdrms, 2207 SqFt, 1961 YrBlt, 10-2-09
- 4 Greenvalley Drive, \$1,700,000, 6 Bdrms, 3435 SqFt, 1977 YrBlt, 10-1-09
- 3279 Mt. Diablo Court #20, \$399,000, 2 Bdrms, 737 SqFt, 1987 YrBlt, 9-23-09
- 3924 Quail Ridge Road, \$1,575,000, 4 Bdrms, 3588 SqFt, 1979 YrBlt, 10-5-09
- 344 Shire Oaks Court, \$845,000, 4 Bdrms, 1658 SqFt, 1965 YrBlt, 10-5-09
- 3546 Silver Springs Road, \$1,100,000, 3 Bdrms, 1853 SqFt, 1956 YrBlt, 9-18-09
- 1084 Via Roble, \$615,000, 4 Bdrms, 1981 SqFt, 1956 YrBlt, 10-6-09

MORAGA

- 899 Augusta Drive, \$690,000, 2 Bdrms, 1656 SqFt, 1978 YrBlt, 9-23-09
- 1320 Bollinger Canyon, \$1,075,000, 4489 SqFt, 1983 YrBlt, 10-6-09
- 231 Calle La Mesa, \$1,300,000, 4 Bdrms, 3465 SqFt, 1972 YrBlt, 10-5-09
- 7 Dickenson Drive, \$977,000, 4 Bdrms, 2294 SqFt, 1960 YrBlt, 9-18-09
- 125 Goodfellow Drive, \$815,000, 4 Bdrms, 2165 SqFt, 1965 YrBlt, 10-6-09
- 16 Irvine Drive, \$855,000, 3 Bdrms, 2235 SqFt, 1985 YrBlt, 10-5-09
- 311 Lakefield Place, \$550,000, 4 Bdrms, 2009 SqFt, 1976 YrBlt, 9-22-09
- 24 Sullivan Drive, \$960,000, 4 Bdrms, 2196 SqFt, 1961 YrBlt, 9-17-09
- 168 Tharp Drive, \$1,015,000, 3 Bdrms, 2686 SqFt, 1963 YrBlt, 9-17-09

ORINDA

- 15 Don Gabriel Way, \$910,000, 3 Bdrms, 2248 SqFt, 1950 YrBlt, 9-22-09
- 11 Highland Court, \$1,340,000, 4 Bdrms, 3258 SqFt, 1965 YrBlt, 10-2-09
- 717 Ironbark Court, \$1,058,500, 3 Bdrms, 2054 SqFt, 1973 YrBlt, 10-5-09
- 233 La Espiral, \$790,000, 3 Bdrms, 1254 SqFt, 1949 YrBlt, 10-5-09
- 10 Lloyd Lane, \$705,000, 3 Bdrms, 1917 SqFt, 1954 YrBlt, 9-22-09
- 8 Muth Drive, \$749,000, 4 Bdrms, 1691 SqFt, 1959 YrBlt, 9-23-09
- 533 the Glade, \$981,000, 3 Bdrms, 2127 SqFt, 1985 YrBlt, 10-2-09

Lamorinda Foreclosures continued

LAFAYETTE

- Stanley Boulevard, LR Properties, 09-24-09, \$588,100, 1454 sf, 3 bd

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