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DAVID HAFFENREFFER, CNNfn ANCHOR, BEFORE HOURS: Well, it is Independence Day, so we`re going to try to help you get to be independent, at least on a financial basis. And joining us now for a look at financial planning and some changes that you might want to consider now is Debra Morrison.

SASHA SALAMA, CNNfn ANCHOR, BEFORE HOURS: She`s a certified financial planner at her own firm, Debra L. Morrison and Associates. Welcome. Thanks for coming in on July 4th.

DEBRA MORRISON, DEBRA L. MORRISON & ASSOCIATES: Thank you.

SALAMA: And happy Fourth. Lots of folks are going to be expecting tax rebate checks in the mail sometime soon.

MORRISON: Indeed.

SALAMA: What would you recommend they do with that money, spend it, save it, invest it?

HAFFENREFFER: Pay down debt.

MORRISON: I`d like to have people saving it because I think the savings level is too low. But single taxpayers will get $300. Joint taxpayers will get $600 before October 1st of this year. And there`s a paucity of emergency funds set aside however, so I want to caution people that all the layoffs haven`t been announced yet and if you would be subject to a layoff, some extra money in the savings account would be helpful.

HAFFENREFFER: Yes, these are uncertain times on the job front basis. How much should people have aside in the event that they are let go?

MORRISON: Typically, six to 12 months of living expenses is the rule of thumb for an emergency fund, but people are painfully low in this category because they`ve been enticed into the stock market and my fear is that we`ll grow into even a more dire situation with consumer debt.

SALAMA: You mentioned living expenses. That`s assuming people know what their living expenses are, right?

MORRISON: You`re exactly right. I`m advocating people do a lot of budgeting because the extra 3 or 600 can be blown through very quickly if you`re not cognizant of exactly what you`re spending. And I think that exercise of budgeting and setting down the expenses that you are encountering is in and of itself an education and it causes people to then maybe tighten the belt a little bit.

HAFFENREFFER: Do you see any themes in your clients who come in to see you that things that they`re doing wrong. Are they not adjusting their portfolios enough or what`s the most common theme?

MORRISON: For all intense and purposes, when two people get comfortable jobs or jobs they think are comfortable and they forget the risk of layoffs and I want to caution again that we do continue to have risks of layoffs. And so if you`re spending beyond your means with dual income, it`s going to be very, very difficult if one person gets laid off. Perhaps people have not allocated their investments as wisely as they might. They may be over indulging in tech and now they`ve been trimmed back. So on the one hand I want to caution that you`re investment risk tolerance needs to match your portfolio and vice versa. But on the other hand, I don`t want to advocate short term gyrations in an asset allocation just because the market has gone through a very natural correction period.

SALAMA: In terms of longer term asset allocation and 401(k) plans, a lot of folks out there seem to have really gotten burned by the tech debacle and may be sitting out there with 401(k) money still mostly aggressive in tech. What`s your advice to them?

MORRISON: It kind of depends on the age Sasha and the risk tolerance. So if you have a younger person that can wait this out, I wouldn`t do anything terribly rash and as a matter of fact I would continue putting your weekly and monthly contributions and your company`s match perhaps into tech. I`m not sure we`ve seen the bottom, but I don`t know.

They don`t ring a bell at the bottom. So go ahead and continue to invest.

But if you`re older, anticipating retirement or use of those funds in the next three to five years, I would certainly pare back on tech and equities in general and look at bond options.

HAFFENREFFER: (INAUDIBLE) the stock market`s performance has been less than desirable so far on a total year to date basis. Have you been recommending people go ahead and put their money into a home as an investment among other things. Obviously we still have very low mortgage rates on an historic basis.

MORRISON: Indeed, it`s a good time for particularly first time home buyers to buy because of the mortgage rate levels and also on the one hand I`m cautioning people that are anticipating a second home purchase because I think that the economy is going to get worse before it gets better and maybe people will sell out vacation homes at lower prices. So there will be some steals out there is my suspicion.

However, the new tax law phase is out, the limit on itemized deductions. So it may be just the time for high-income people to go ahead and purchase perhaps not this week or next week but in the next year or so second homes, because that phase out is going to be eliminated.

SALAMA: What other kinds of factors in the new tax law should people be aware of?

MORRISON: The new tax law doesn`t phase in quickly enough for my money, but indeed the phase ins are there and the 401(k) and Roth and traditional IRA limits are increasing. The education IRA increased from $500 to $2000. So in essence we want to maximize our pretax savings right now at the current levels and in 401(k) it`s $10,500 going up to $11,000. There`s also a catch up provision for people that are 50 and older. But these, many of them start in 2002. So my advice for 2001 is, go ahead and at least bring yourself to the maximum that we`re currently exposed to and then you`ll be geared January 1, 2002 to go ahead and increase.

HAFFENREFFER: Yes, maximizing your pre-tax opportunities is key. It seems as though we`re getting inundated with a number of different ideas along that line from our employers. Among them we have the flexible spending account which is actually something that is on the medical side.

But I`m also noticing now that you can do like transportation costs on a pre-tax basis. Does that come out of the total amount that you can put aside toward your 401(k)?

MORRISON: No, that`s a cafeteria plan and it`s really separate from the 401(k). So you`re still eligible depending on your income limit. Of course there are testing rules and so forth at particularly high income people may be prevented from putting away the whole $10,5 at this juncture. But the cafeteria is quite separate and people should certainly look at costs of (INAUDIBLE) and health care and so forth and maximize that cafeteria plan as well.

SALAMA: Well, thanks for all of the good advice. We appreciate it. Debra Morrison of Debra L. Morrison & Associates.

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