The New Three-Legged Stool ...

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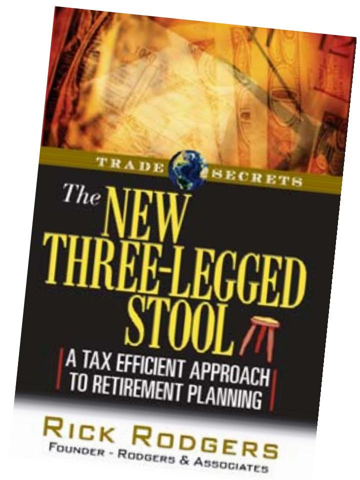
Update



Tax Planning For 2010

Now is the time to be taking steps to prepare for income taxes in 2010. Holiday preparations will soon consume our time and distract us from thinking about financial planning. It may seem like 2010 taxes can wait a few months, but there is much to think about and prepare for now.

Harvest Losses - A great place to start is to clean up your investment portfolio. Sell your underperforming assets, especially if you have a capital loss. You may already have the maximum amount of losses that you can deduct in 2009. Capital losses offset capital gains and up to $3,000 of other income. However, any excess loss is carried over to the next year. Mutual fund companies have already announced that they will not be distributing much in capital gains for 2009. 2010 could be a different picture for capital gain distributions. Those loss carry forwards may come in handy next year if the stock market continues to recover.

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Bear Markets are Your Friend

Many investors live in fear of severe drops in the stock market. They mistakenly believe that to be a successful investor, they must be out of the market when it drops. The stock market sell off that began in September 2008 sent many investors running for the sidelines in order to be in cash instead of incurring more losses. Some believe they made the right decision as the Dow Jones Industrial Average (DJIA) dipped below 7,000 in March. But just like every other bear market in history, this market recovered much sooner and stronger than anyone expected. Those that sold their stocks while they were falling have now lost twice.

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Financial Planning Involves More Than Just Investments!

- Personal Goals
- Asset Allocation
- Tax Planning
- Tax Projections
- Estate Planning

Tax Planning For 2010 *(continued from page 1)*

Make sure you've withheld enough - November is a great time to run a tax projection for the year to determine if you will have enough tax paid in to avoid an underpayment penalty. You can still adjust your withholding from your paycheck by completing a new form W-4 if it looks like you won't have enough paid in. You will need to have 90% of this year's tax bill paid in to avoid a penalty. The penalty can also be avoided if you've paid in 100% of your 2008 tax liability (110% if your AGI (adjusted gross income), was over $150,000). You can always make an estimated tax payment before January 15, 2010 to close the gap. However, you may still have a penalty if you didn't make equal estimated payments throughout the year. Another way to get taxes paid in would be to take an IRA distribution and withhold 100% for taxes. You would need to be over age 59 ½ to avoid an early withdrawal penalty. You will also need to add the amount of the withdrawal to your tax projection as taxable income.

Refinance? - Now may be a good time to look at refinancing your home mortgage to take out money to replace loans that generate personal interest with mortgage or home-equity loans. Personal interest cannot be deducted on your tax return, while mortgage interest and home equity loan interest typically can, as long as the mortgage does not exceed $1,000,000 and the home-equity loan does not exceed $100,000.

Check your deductions - Other itemized deductions to consider are medical expenses and charitable donations. Medical expenses are only deductible to the extent that they exceed 7½% of your AGI. If you are close to that level now, consider incurring additional medical expenses this year to make sure you are over the deductible level. For example, schedule routine exams in December rather than January or February, pay your medical premiums early, replace your glasses or contacts before year-end. On the other hand, if you aren't close to getting the medical deduction, put off those expenses until January.

Give to charity - There is no threshold for charitable donations. 100% of your charitable gifts are deductible if you itemized for gifts made by December 31st. You should start soon if you are going to make gifts using appreciated stock or mutual funds. Transfer agents get busy in December because a lot of people are trying to complete gifts of stock at the last minute. Mutual funds can easily take 2-3 weeks to transfer. Don't donate securities that are worth less than your cost. Sell the security first to take the loss on your own tax return and then donate the cash to charity.

Check the AMT - Many of these strategies won't work for you if you are subject to the Alternative Minimum Tax (AMT). "

Delay your deductions if appropriate - You may want to delay deductions until 2010 if your AGI will be more than $166,800. Taxpayers with incomes over this level lose 1% of some of their deductions on the amount in excess of this level in 2009. This 1% reduction is repealed completely in 2010 as part of the 2001 and 2003 tax cuts. Unfortunately it is only for the one year.

Check the AMT - Many of these strategies won't work for you if you are subject to the Alternative Minimum Tax (AMT). In fact, taking more of certain deductions actually increases the likelihood that you will owe the AMT. State and local taxes, some medical expenses and miscellaneous deductions can trigger the AMT. Generally the AMT affects joint filers with incomes between $150,000 and $450,000. Single filers with incomes between $110,000 and $300,000 can get pinched with this tax. You should discuss these strategies with a tax expert to be sure you will receive the desired benefit.

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Year end checklist:

- Harvest Losses
- Withhold enough
- Refinance?
- Check your deductions
- Give to charity
- Delay your deductions
- Check the AMT

Bear Markets are Your Friend *(continued from page 1)*

They lost money when the market went down, and they lost again as it recovered while they were still holding cash.

To survive a bear market it helps to know a little about them. A bear market is considered to be a market that drops 20% from its high. The DJIA reached 14,164 on October 9, 2007, and sank to a low of 6,547 on March 9, 2009, a 54% drop. Most bear markets since the Great Depression have been provoked by a policy of monetary restraint by the Federal Reserve, loss of market liquidity, and outbreaks of war.
The recession/bear markets of 1981–83, as well as 2000–01, were in large part caused by Fed actions raising interest rates. Lack of liquidity was the factor in 1987 when stocks became grossly overvalued. The first Gulf War in 1990–91 produced a war-driven bear market. When history writes the epitaph for this bear market, it is likely to point fingers at the subprime mess, exacerbated by rising commodity prices which have eroded consumer confidence and negatively impacted consumer spending.

Bear market contractions last from peak to trough and are generally followed by expansions from trough to peak. Fortunately, contractions are becoming shorter, while expansions are becoming longer, with each expansion reaching a new high. A long term chart of the S&P 500 index of stocks shows a line going up and to the right, despite the drops along the way.

Data compiled from Bespoke Investment Group for a recent Barron's article noted that bear markets have averaged 386 days from peak to trough since 1940. By the time the market had dropped 20%, about 74% of the drop was out of the market. In other words, by the time you realize that you are in a bear market, you've already experience 74% of the decline. It's too late to get out.

Since the end of World War II, there have been 13 bear markets including the most recent drop. This averages out to one in every five years. Bear markets are common. There is nothing unusual about them and we should embrace them. It is a time when the markets ring out the excesses brought about by speculation in one sector or another. In the 1990s, it was the technology bubble. In 2007-2009, it was the real estate market, oil prices and finally mortgage bonds. Usually stock prices initially over-correct, just like they did in March of this year. Instead of fearing them, we need to view bear markets as an opportunity to acquire stocks at bargain basement prices.

During the later stages of a bear market, investors tend to be dragged down by despair, leading to an indiscriminate jettisoning of good assets. While we would all like to think we know precisely the time to sell and buy, those times are emotionally counterintuitive. The fact remains that in order to grow real wealth; one has to stay in the game, and continue to own the great companies of this country. The great investor, Warren Buffet, wrote in his op-ed piece to the New York Times on October 17, 2008 "A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful." He concluded the article with this paragraph, "I don't like to opine on the stock market, and again I emphasize that I have no idea what the market will do in the short term. Nevertheless, I'll follow the lead of a restaurant that opened in an empty bank building and then advertised: "Put your mouth where your money was." Today my money and my mouth both say equities." The DJIA closed the day this article was printed at 8,852. Today it is back over 10,000. Warren Buffet embraces the bear and so should you.

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Have a Happy Thanksgiving!!

Rodgers & Associates
"THE RETIREMENT SPECIALISTS"

647 East Roseville Road
Lancaster, PA 17601
Phone: 717-560-3800
Toll Free 1-888-876-3437
E-mail: mark@rodgers-associates.com

Rick's Tips - **Municipal Bonds = Tax-Free Income**

It seems that everyone is expecting income tax rates to be increased soon to pay for massive government deficits. The President says that tax increases will only be experienced by taxpayers earning more than $250,000. However, it is highly unlikely the government will be able to balance trillion dollar deficits on the backs of 5% of the population. It might be a good idea to shake the dust off your tax-free investing books. If protecting your income from taxation is a priority, a new look at the tax-free, municipal bond market may be your cup of tea.

When State and local governments want to invest in bridges, highways and other capital improvements they finance the investment by issuing municipal bonds. These bonds pay interest that is exempt from federal income tax as well as the state income tax of the state where issued. This tax exemption results from the theory of reciprocal immunity: States do not tax federal government bond interest and the federal government does not tax interest of state and local government issues.

Municipal bonds generally come in two flavors: general obligation bonds that are paid from property and income tax revenues, and revenue bonds that are paid back by the revenue generated from the invested proceeds of the bond issue such as a municipal stadium or toll bridge.

Bonds are issued in units of $1,000, but since the mid-1970s the minimum bond denomination has been $5,000. "A bond" is bought, sold, referred to and priced as if it were $1,000. For pricing purposes the par value of "a bond" is considered to be $100.

Once bonds have been issued, the secondary market prices the bond issues on the basis of credit risk and the bond's yield. Wall Street underwriters and commercial rating companies provide relative indications of bond creditworthiness. Rating agencies such as

Standard & Poor's®, Moody's Investors Services and Fitch® use alpha ratings to grade bonds. Investment grade bonds are AAA (highest, most credit worthy), AA, A, and BBB for S&P and Fitch, while Moody's uses Aaa, Aa, A and Baa for comparable rating. Anything further down the alphabet is considered less than investment grade.

Investors seeking more security and less risk can purchase bonds insured by private insurance companies that guarantee to pay principal and interest when due. This will provide a credit rating of triple-A and thus a lower borrowing cost for the issuer. It will also result in payment of a lower yield, or interest coupon, to the bondholder.

The current interest rate environment plays a role in bond pricing. The basic rule is that when interest rates fall, bond principal prices go up. The reverse is true when interest rates rise. The current yield of a bond is the ratio of the coupon rate on a bond to the dollar purchase price expressed as a percentage. Therefore, if bond par is $1,000, expressed as $100, and the yield coupon is 4%, the current yield is 4%. However as interest rates for comparable new issues fall, the market price may increase. If the price rises to $1020, expressed as $102, the same 4% coupon represents a current yield of 3.92%.

Bonds may be issued with call features, allowing the issuer the right to call the bond at a stated price. Think of this in the same terms as you would when refinancing your home mortgage. Mortgage rates go down, you refinance for a lower rate. Callable bonds work the same way, with the issuer paying the holder back a principal sum and then refinancing the bonds at a lower rate or simply paying off the debt early.

Bonds are often quoted with a yield-to-maturity return that takes into account the interest rate, length of time to maturity and price paid. If quoted with a yield-to-call figure, pricing reflects the same data taking into consideration the call date, and any potential call premium offered by the issuer.

If current dividend taxation (15% Federal) remains the law of the land, municipal bonds may not be as attractive. However if the dividend tax reduction is rolled back, and dividends are then taxed as ordinary income, the tax-free yields of municipal bonds will become more attractive to tax payers in higher tax brackets.

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