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Raymond James Chief Economist Scott Brown noted that “this is only a modest downgrade,” and that “U.S. debt is still considered the ‘safe’ asset.” He also cited other downgrades of sovereign debt where “long-term interest rates typically did not rise by much.”

His conclusion: “As it stands, the S&P downgrade of U.S. government debt is the least of our problems. The bigger worry is subpar economic growth and the threat of a new recession.”

Despite calming statements from economists around the world, investors are clearly rattled by the move, especially as it follows a rancorous political debate over the debt ceiling and ongoing concern about government debt in the eurozone.

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Crisis Investing: Keeping Your Head

When a crisis creates uncertainty, markets often become volatile, especially when the scope of the disaster isn't clear. A crisis is like Janus, the Roman god with faces that looked forward and back. For some investors, it may represent a threat; for others, it may spell opportunity. Not every crisis requires a reaction; sticking to a long-term plan is still the best strategy for most people.

Here are some examples of factors that investors sometimes overlook when considering which face of Janus to focus on during a crisis.

Watch the global supply chain

Companies and economies increasingly operate in a global context. The more heavily an industry or company relies on global partners, the more it might be affected by crisis conditions. Think not only about companies that are affected directly by turmoil, but about other companies that rely on them.

For example, China has become in many ways the world's factory floor, and many information technology services are now outsourced to India. How would a crisis in either country affect global supply chains or communications infrastructure? Might competitors not affected by the crisis pick up at least some of the slack? How might a particular industry be hit by shortages of parts or raw materials? Is a large multinational so geographically spread out that a crisis in one part of the world may have little impact on its overall operations? Oil is perhaps the most obvious example of how a crisis can affect global supply chains. A perceived threat to supplies can affect prices of other assets.

Consider currency fluctuations

Currency fluctuations are another factor to consider. Crises in one part of the world can affect that region's currency. That in turn can affect companies located elsewhere. The 2010 panic over potential default by several eurozone countries strengthened the dollar, and though that may sound like good news, a stronger dollar can hurt U.S. exports.

Currency issues are also important because of what's called the “carry trade.” This happens

when investors use money from a country where interest rates are relatively low--the Japanese yen and the U.S. dollar have been prime examples in recent years--to invest elsewhere at a better rate of return. However, if the cheaper currency suddenly increases in value, the carry trade can reverse as investors put their capital back into the so-called funding currency. That can affect assets denominated in other currencies. For example, the yen soared as investors anticipated that money would be repatriated to deal with Japan's earthquake/tsunami/nuclear disaster. Some investments denominated in other currencies suffered when investors sold them to invest in yen.

Think both long term and short term

Nothing lasts forever. A crisis could create opportunities that eventually peter out, or challenges that later seem trivial. Or it could have little short-term impact but mean profound change over a period of years. When considering whether a crisis represents a challenge or an opportunity, think both short term and long term.

A crisis with potentially long-term opportunities or harmful consequences may mean you may be able to take more time with a decision. If the window of opportunity is smaller or the potential devastation more short term, remember that there are alternatives to an all-or-nothing approach. For example, you could take a small position and see how your investment thesis plays out before committing more. Even if the window of opportunity slams shut, new opportunities often emerge during even the worst of times; missing one now doesn't mean you won't find others later. If you're worried about a potential downturn, you could use other investments to hedge your exposure while retaining a long-term stake, or take profits to protect part of your holdings but leave some money invested in case the crisis is short-lived.

Note: *Any investment approach involves some type of risk, including the possible loss of principal, and there's no guarantee any strategy or technique will be successful.*

Getting an Early Start on Saving for Retirement



It's obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off your retirement savings. For example, if you retire at age 70 instead of age 65, and save an additional \$22,000 per year at a hypothetical 6% rate of return, you can potentially add \$124,016 to your retirement fund (and any existing savings will have five more years of potential growth). (This is a hypothetical example and not intended to reflect the actual performance of any specific investment. Earnings are pretax, and may be subject to income tax when distributed.)

Many people assume they can hold off saving for retirement and make up the difference later. But this can be a costly mistake. Waiting too long to start saving can make it very difficult to catch up, and only a few years can make a big difference in how much you'll accumulate. This doesn't mean there's no hope if you haven't set aside anything for retirement yet. It just makes it all the more important that you implement a plan today.

Start saving now

Start saving as much as you can, as soon as you can. The earlier you start, the longer compounding can work for you. For example, a 20 year old who saves \$200 a month until age 65 and earns exactly 6% on saved funds annually would have accumulated around \$550,000. But a 40 year old contributing the same amount each month at the same earnings rate would have accumulated only \$138,600 by age 65.

Contribute \$200/month to age 65 at different hypothetical earnings rates				
	Start at age 20	Start at age 30	Start at age 40	Start at age 50
2%	\$174,931	\$121,510	\$77,764	\$41,943
4%	\$301,894	\$182,746	\$102,826	\$49,218
6%	\$551,199	\$284,942	\$138,599	\$58,164
8%	\$1,054,908	\$458,776	\$190,205	\$69,208

(This is a hypothetical example and is not intended to reflect the actual performance of any specific investment. Earnings are pretax, and may be subject to income tax when distributed.)

Take advantage of employer plans

Chances are your employer offers a 401(k), 403(b), or similar retirement savings plan. You can contribute up to \$16,500 to a 401(k) plan in 2011. And if you're 50 years old or older, you can make additional "catch-up" contributions of up to \$5,500, for a total of \$22,000 in 2011.

Since pretax contributions are excluded from your paycheck, you'll enjoy an immediate tax savings when you contribute to one of these plans. For example, if your effective income tax rate is 30%, a \$22,000 annual pretax contribution will only "cost" you \$15,400 once the tax benefit is factored in. Of course, you'll have to pay income tax when you start receiving distributions from the plan, but it's possible you'll be in a lower tax bracket at that time (note that distributions made prior to age 59½ may be subject to a 10% additional

penalty tax unless an exception applies). Your employer's plan may also allow you to make Roth contributions. There's no immediate tax benefit (contributions are made with after-tax dollars), but qualified distributions are entirely free from federal (and most states') income tax.

Even if you can't contribute the maximum allowed, you should at least try to contribute as much as necessary to get any matching contributions that your employer offers. This is essentially "free money." However, you may need to work up to six years before you're fully vested in (that is, before you fully own) any employer matching contributions.

Don't forget IRAs

You can contribute up to \$5,000 to an IRA in 2011. You can also make catch-up contributions to an IRA if you're 50 or older--up to an additional \$1,000 in 2011.

Your contributions to a traditional IRA may be deductible if neither you nor your spouse are covered by an employer retirement plan, or (if either of you are covered) your income falls within specified limits. Like pretax 401(k) contributions, deductible IRA contributions can result in an immediate tax savings, and as with 401(k) plans, withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax unless an exception applies.

But even if you can't make deductible contributions to a traditional IRA, you can generally make nondeductible (after-tax) contributions. There are no up-front tax benefits, but your contributions will be tax free when withdrawn, and any earnings will grow tax deferred until distributed.

If your income is within prescribed limits, you can also make after-tax contributions to a Roth IRA. In this case, even the earnings are tax-free if your distribution is "qualified." Distributions are qualified if you satisfy a five-year holding requirement, and the distribution is made after you reach age 59½, become disabled, or die, or the funds are used to purchase your first home (up to \$10,000 lifetime).

Make saving a priority

Saving even a little money can really add up if you do it consistently. Consider ways to free up more money to save for retirement--by reducing discretionary spending, for example. And, put retirement ahead of competing goals, even important goals like saving for your child's education.

Medicare and Medicaid: Do You Know the Difference?



Medicaid, not Medicare, is the primary payer of nursing home care in the United States. Although Medicare pays for short-term skilled nursing or rehabilitative care in a skilled nursing facility, it does not pay for extended care in a nursing home or for other custodial long-term care. Custodial care is help with daily activities such as eating, bathing, dressing, and using the bathroom. Some individuals need both short-term and long-term care; for example, someone who has suffered a stroke may receive rehabilitation services in a skilled nursing facility, but may later be admitted to a nursing home in order to receive custodial long-term care services.

For more information, visit the Centers for Medicare & Medicaid Services website at www.cms.gov.

Medicare and Medicaid were signed into law 36 years ago to protect older and poorer Americans against the high cost of health care. Ironically, it's the high cost of providing health care through these programs that now threatens federal and state budgets, leading to calls for Medicare and Medicaid reform. Although these programs are often lumped together, they function quite differently. Here's a look at the coverage each provides.

What is Medicare?

Medicare is a health insurance program funded and run by the federal government that guarantees health coverage to older Americans. Medicare is not income-based. People who have paid Medicare taxes on their earnings are automatically eligible at age 65, but some people with disabilities qualify for Medicare coverage earlier than age 65, and people with end-stage renal disease qualify at any age.

Medicare offers three main types of coverage. Part A covers inpatient hospital care, as well as short-term skilled nursing care, hospice care, and home health care under certain conditions. Part B covers medical services such as doctor's visits, outpatient care, and laboratory tests. Part D covers prescription drugs. If you or your spouse has paid Medicare taxes while working, you generally won't pay a premium for Medicare Part A coverage, but you'll pay a premium if you want to enroll in Part B or in some (but not all) Part D plans. You'll also need to pay certain out-of-pocket costs such as deductibles, co-payments, or coinsurance costs, depending on the types of coverage you have.

What is Medicaid?

Medicaid is a health insurance program funded by both the federal government and state governments to provide coverage to Americans of all ages who have low incomes and no health insurance. States administer their own Medicaid programs under federal guidelines. They must cover individuals on public assistance, but they may also opt to cover other groups and establish eligibility requirements. Children, families, people with disabilities, and older individuals may all receive Medicaid.

If you're eligible for Medicaid, you may have to pay a small co-payment when receiving medical services, but most of your health-care costs will be covered.

Can you be eligible for both Medicare and Medicaid?

Yes--if you're eligible for both programs, you're

known as a "dual eligible" beneficiary. Generally, individuals who are eligible for both programs are older or disabled (or both) and need help paying their Medicare costs because they have very low incomes. Medicaid covers premiums, deductibles, co-payments, coinsurance, and other Medicare costs and provides some health benefits that Medicare does not. Individuals in nursing homes are often dual eligible beneficiaries, and that's partly behind the misconception that Medicare pays for nursing home or other long-term care (it does not--see sidebar); instead, Medicaid is the primary payer of nursing home bills. Because many older individuals cannot afford the high cost of nursing home care and exhaust their savings, they eventually become eligible for Medicaid.

Medicare	Medicaid
Primarily age-based; individuals age 65 and older qualify, along with some individuals with disabilities	Primarily means-based; individuals of any age with low incomes who meet eligibility requirements may qualify
The federal government runs Medicare, and the program is the same for all Americans	State governments run programs under federal guidelines, so programs vary from state to state
Financing comes from federal funds; partly financed through payroll taxes and premiums	Financing comes from federal, state, and local revenue
Medicare Part A provides coverage for hospital stays; Medicare Part B covers the cost of doctor's bills, laboratory costs, and some outpatient costs; Medicare Part D covers some prescription drug costs	Broader coverage of health costs than Medicare, including inpatient and outpatient care, prescription drugs, laboratory costs, family planning, and nursing home care (types of coverage may vary from state to state)
Medicare beneficiaries may pay deductibles, co-payments, coinsurance costs, and premiums	Medicaid generally pays all approved charges, though a small deductible or co-payment may be required

Ask the Experts

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I'm buying a laptop online--will I have to pay sales tax?

There are currently five states that do not have a sales tax: Alaska, Delaware, Montana, New Hampshire, and Oregon.

If you live in one of the other 45 states, or in the District of Columbia, you're probably legally responsible for paying some form of sales or use tax on your laptop purchase. And, to complicate matters even further, many municipalities assess a sales tax as well.

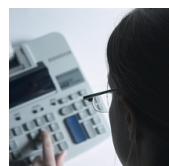
That doesn't mean an online merchant will collect the tax on your purchase from you, though. States can only force a merchant to collect state sales tax if the merchant has a significant enough physical presence in the state (think stores, distribution centers, corporate offices). This isn't unique to online merchants--the same rules apply to any out-of-state company that you purchase goods from.

So, it's entirely possible that you could order a laptop online from Company A, a company with an in-state sales staff, and have to pay sales tax as part of the purchase, but order the same laptop online from Company B, a company with no in-state connection, and not have to pay

sales tax as part of the transaction. Of course, a merchant can voluntarily collect sales tax for a state, even if they're not required to do so.

Just because the merchant doesn't collect sales tax doesn't necessarily mean that you're off the hook, however. Most states that impose a sales tax also have a related use tax. Essentially, a use tax means that if you should have paid sales tax on a purchase, but didn't because the merchant wasn't required to collect the tax, you're responsible for reporting the purchase yourself and paying the appropriate amount of tax.

The details vary from state to state--some states include the use tax calculation on state income tax returns, while others use separate forms. Of course, because the use tax relies on individuals self-reporting their purchases, and states have a limited ability to enforce compliance, it probably isn't surprising that many consumers simply do not report their online purchases.



Can I deduct state sales tax on my federal income tax return?

If you itemize deductions on Schedule A of IRS Form 1040, you are generally able to deduct state and local taxes,

including income tax, real property tax, and personal property tax. For 2011, if it works to your benefit, you can elect to deduct state and local general sales tax in lieu of state and local income tax. One thing to keep in mind: if your total itemized deductions don't exceed your standard deduction amount (for 2011, as an example, a married couple filing a joint federal income tax return would typically be able to claim a standard deduction of at least \$11,600), you generally won't get any additional tax benefit from deductions you claim on Schedule A.

When claiming a deduction on Schedule A for state and local sales tax, you have two options. You can deduct the amount that you *actually paid* in sales tax, as evidenced by receipts that you have accumulated showing amounts paid. Alternatively, you can use tables published by the IRS that are based on average consumption in each state, and factor in modified adjusted gross income and number of

exemptions. Even if you use the optional tables, you're still generally able to deduct the sales tax on certain specified items, like cars and boats.

One caution here: special rules apply to married couples who file separate federal income tax returns. If both you and your spouse elect to deduct state and local sales tax in lieu of income tax, and your spouse elects to use the optional state sales tax tables, you'll have to use the tables as well.

Things can get a little more complicated if you lived in more than one state during the year, or if the sales tax rate for the state in which you live changed during the year. Currently, the ability to deduct state and local sales tax in lieu of income tax expires at the end of 2011. And, if you're subject to the alternative minimum tax, the AMT rules may limit the deductions available to you, including the deduction for state and local taxes.

For additional information, talk to a tax professional, and see IRS Publication 600, *State and Local General Sales Tax*, and the instructions for IRS Form 1040, Schedule A.