



Soundings

What's New – September 2009

Quote of the month:

“Maturity is the capacity to endure uncertainty.”

- John Huston Finley 1863 - 1940

This month's seminar is an encore of one we did for the first time in June, titled *Financial Issues in Divorce*, it was our best attended event to date. I snuck in a new designation over the past year, *Certified Divorce Financial Analyst* (CDFA) and in this capacity, I can help a divorcing client examine the financial implications of a proposed divorce settlement. Using training and highly specialized software, I can provide an important glimpse into the future for an individual facing the uncertainties of divorce and help answer the question, “*what will my lifestyle look like when the dust settles*”. If you know anyone who might benefit from attending, please pass along the invitation.

Upcoming Events

Financial Issues in Divorce

Sept 22

Maintaining Control in Estate Planning

Oct 13

Seminar dates and locations are subject to change, please call Evelyn or Jan at 936-6686 for more details

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Market Update – Year to Date Returns

<u>Major Stock Indexes</u>	<u>(As of 9/01/09)*</u>
Dow Jones Industrials	8.2%
S&P 500 Index	13.0%
NASDAQ Comp	27.4%
Dow Jones World Index (ex US)	26.7%
Russell 2000 (small cap index)	14.5%

<u>Major Bond Indexes</u>	
Broad Market – Barclays Capital Aggregate	4.6%
High Yield Corporate - Barclays Capital	40.9%
Municipal Bond - Barclays Capital	10.1%

<u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	23.2%
Large Cap Value	15.2%
Small Cap Growth	22.5%
Small Cap Value	20.6%
International	25.6%

Source: The Wall Street Journal and Barclays Website

- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect investment performance. Individual investor's results will vary

Other Disclosures:

- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the US stock market. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ market. The Russell 2000 index is an unmanaged index of small cap which generally involve greater risks. The Dow Jones Industrial Average (DJIA), commonly known as the "Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of Jon Kagan and not necessarily those of RJFS or Raymond James Financial. Expressions of opinion are as of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred herein.
- Investments mentioned may not be suitable for all investors. Past performance may not be indicative of future results. You should discuss any tax or legal matters with the appropriate professional.
- Income from Municipal Bonds may be subject to State, Local or AMT taxes.
- Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.
- Keep in mind asset allocation and diversification do not assure a profit or protect against a loss.
- Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising.

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Market & Economic Commentary

This month I thought we'd take a look at **taxes, where they are, where they might be headed, and a strategy that might warrant consideration.** Income taxes as we know them today trace their roots to the passing of the *16th Amendment* in 1913 and since then, the bottom rate has been in the neighborhood of 5% and the upper rate anywhere from 15 - 94%. The link: <http://www.treas.gov/education/fact-sheets/taxes/ustax.shtml> will take anyone interested, to an informative piece from the **Treasury Department** on the history of the income tax. The link published by the **Tax Foundation**: <http://www.taxfoundation.org/files/federalindividualratehistory-200901021.pdf> will give you a year-by-year view of the tax brackets from 1917 to present. A visit there will show that with today's top tax bracket at 35%, you'd have to go back to 1931 to get lower, when the top rate was 25%. From 1936 all the way to 1981, top earners faced a marginal tax rate of at least 70%. Next year, the so-called *Bush tax cuts* will expire and top earners will once again, pay just under 40% to Uncle Sam and the favorable changes to capital gains and dividends will sunset.

The point of the history lesson is that **we've got to be aware of the effect that taxes will play in our lifestyle** in the future and we should be thinking about ways to try and mitigate these effects and diversify not just our asset classes, but also the tax buckets in which our financial assets sit. For years it was *conventional wisdom* that we need to maximize the amount we put into tax-deferred savings vehicles because we will enjoy the tax-deferred growth and in the future, when we withdraw that money for income and pay the taxes owed, we will most likely be in a lower tax-bracket than when we were working, a double win. As we saw above, if income taxes revert to a more historical norm, that might not be the case. What the future holds for tax rates is anyone's guess but with the historic shift in demographics over the next 20 years as the baby boomers retire and start drawing on the already financially strained government programs, few would forecast tax rates going down.

In that context, I'm going to talk about something you may be reading about, **conversion of a Traditional IRA to a ROTH IRA**. The **ROTH IRA** was born in 1998 and allows an individual to contribute the same amount as a **Traditional IRA**, the difference being the contribution is not deductible against income. The tradeoff is that the as the account grows and if certain conditions are met, no tax will be owed in the future. Against the historical backdrop, this could be a very powerful feature. The ability to convert a Traditional IRA to a ROTH comes with some serious considerations, the most significant being the amount converted will be added to your taxable income and thus taxed at your marginal tax rate. Even if this makes all the sense in the world for your situation, the law states that if your modified-adjusted-gross income is over \$100,000, you aren't eligible for a conversion...until next year.

In 2010, a provision in the **2005 Tax Increase Prevention and Reconciliation Act (TIPRA)**, removes the income limitation and offers a special tax incentive for those who choose to convert in 2010 - the option to split the tax burden between tax years 2011 and 2012. This will be a tremendous opportunity for many individuals and as such, much will be written and spoken about it in the upcoming months. I'll be reviewing all your situations as well and letting you know your options as time approaches. In the meantime, **please check the Client Alert on the right hand margin at our newly reworked website: www.jonkagan.com** for additional information and an expanded discussion, as well as: http://money.cnn.com/2009/08/18/pf/retirement_saving_strategies.fortune for an article from CNN Money.

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On a Personal Note

You may have noticed that we've stepped out a bit in this newsletter as well as our other print media and introduced a **new logo**. We rolled it out in conjunction with an **overhauled website** as part of a coordinated effort to differentiate our practice from the growing number of **Raymond James** branches in the area. We've also picked up a regular spot on our local **ABC TV News** broadcast as their resident Certified Financial Planner and I've got a biweekly morning gig called "**Money Savers**" where I chat with the morning anchor on a subject of financial nature. It's been a lot of fun and has really expanded our exposure in the local area. It hasn't changed our relationship with Raymond James in any way, we are just working on branding our practice and highlighting it's "unique-nes" within the Raymond James system.

Before sending the kids back to school a couple weeks ago, we got a chance to meet up with an old Navy friend from days gone by. **Gary Stelzel** kept me sane on a deployment back in the late eighties where we took our helicopter detachment (4 Pilots and 15 Maintainers) from **Hawaii** to the West Coast of the US and up through **Alaska** and the **Aleutian island** chain on a large scale exercise called **PACEX**. There's not enough space to give you the highlights of that deployment but it was great to catch up with him, his wife **Mo**, and their two daughters **Jessica** (12) and **Katie** (9) at their lake house south of Atlanta. My boys were gentlemen (for the most part) and we had a great time. We got to see a little movie memorabilia to boot. If you've ever seen the classic comedy, "**My Cousin Vinnie**" with **Joe Pesci** and **Marissa Tomei** (If you haven't, you really need to rent it!), "**sac-o-suds**", the old country store where the trouble began is just off the lake and sadly, a boarded up victim of our current recession.

The boys are **back in school**, knocking out the homework and in the middle of **Football season**. It's their second year in the sport and we're having a lot of fun this season. The scary part is that as they get older and bigger, so does the weight limit and right now the boys in their league can max out at **200 lbs**, about what Alex and Collin weigh together! You can feel it in the stands when someone takes a good hit. The saving grace for us as parents is that my boys are more gifted in the academic pursuits than in athletics so the risk of them getting hurt has been mostly limited to splinters on their butts from the bench.

I've got to share a neat program my brother **Jay** and his family took part in over the summer. Jay, his wife **Joanie**, and their three boys, **Benjamin** (13), **Noah** (10), and **Peter** (6) hosted a 12 year old boy from the **Bronx** for 10 days at their home in **Vermont** as part of a program called **Fresh Air**. The program places young inner city children from financially disadvantaged situations with volunteer host families in rural and suburban communities to give them an experience they'd otherwise never get. Jay picked up **Devone** at Burlington Airport and headed straight to **Lake Champlain** for a day of boating, swimming and fun. When he hit the throttle, he turned around and saw one of the biggest smiles on record and that was the beginning of a wonderful experience for all of them. Take a look at: <http://www.freshair.org/> for more information on the program.

I hope you're all doing well and enjoying each day as it comes.

Warmest regards,

Jon

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