Investing Today... Timely Topics

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Happy New Year!

Economic Outlook: Expect U.S. Recovery To Be Gradual, Fragile

According to Dr. Scott Brown, Chief Economist at Raymond James, "the U.S. economy appears to be recovering from its worst financial crisis since the Great Depression. Normally, recoveries from severe recessions tend to be sharp as housing and auto sales snap back."

Typically, the labor market lags in an economic recovery. We don't know if this recovery will be typical, but job losses seem to be moderating. This leads many to hope that job growth will return in early 2010, aided partly by government hiring for the 2010 census.

Most pundits believe the Federal Reserve will keep short-term interest rates at low levels well into the second half of the year and possibly into 2011. The timing of the Fed's decision to begin tightening monetary policy will depend on the unemployment rate, inflation expectations, and the underlying trend in inflation.

Stimulus at Work

According to Dr. Brown, fiscal stimulus helped support the economy in 2009. However, this will ramp down in the second half of this year and into 2011, effectively acting as a drag on overall gross domestic product (GDP) growth. Hopefully, the private sector will pick up steam, offsetting the impact of reduced government demand.

Did you know

The Federal Estate tax exemption is unlimited in 2010. If Congress remains deadlocked, the estate tax returns on January 1, 2011 with a $1,000,000 exemption & 55% tax rate. Call to find out how that might affect your Estate Planning.

I think we can all agree that the bigger uncertainty will become apparent heading into the second half of the year since the Bush administration's tax cuts are scheduled to sunset at the end of 2010. An increase in taxes would not be good for a fragile recovery. Uncertainty regarding which tax cuts might be extended and which might be allowed to expire will likely be a problem for investors and the economy.

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Good things can come to those who don't wait…Plan for the New Year…

- ◊ ENVISION the kind of retirement lifestyle you want now or in the future
- ◊ ESTIMATE how much you'll need to fund that lifestyle
- ◊ EVALUATE the resources you can tap for income
- ◊ EARMARK income to cover your needs
- ◊ ENLIST help

How To Get Started:

- ◊ **Get organized.** Organization is the key to success in all things financial.
- ◊ **Write down your goals.** Have you ever written down the things you want in life? Not all good things cost money, but savings can give you the opportunity to travel, to retire early, to start a business or to change careers. Putting goals in writing makes them real and becomes a starting point for the planning you need to do.
- ◊ **Create a budget.** Your budget is your roadmap, or even better in today's day and age, your GPS for financial planning.
- ◊ **Track your spending.** If you haven't purchased financial accounting software or set up a reliable accounting method of your own, consider doing it. Diligently tracking your expenses is an important part of getting your personal finances in order.
- ◊ **Consider financial advice.** Consider sitting down with a financial planner to discuss your current plan and what you should do to plan your financial future.

Portfolios should be designed based on your goals, your risk tolerance, & your economic outlook. What's in store for 2010 & beyond? No one knows, but there are appropriate strategies for every scenario.

Deep Recession	Recession	Zero Growth	Low Growth	Bull Market	Strong Global Expansion
Severe Economic Contraction	Economic Contraction	No/Flat Economic Growth	Mild Economic Growth	Strong Economic Growth	Strong Global Growth
Unemployment > 12+%	Unemployment > 8+%	Unemployment > 6+%	Unemployment > 6+%	Average Unemployment	Low Unemployment
Heavy Deflation	Deflation	Deflation/ Stagflation	Mild Inflation	Average Inflation	Above Average Inflation
Low Interest Rates	Low Interest Rates	Low Interest Rates	Rising Interest Rates	Rising Interest Rates	High Interest Rates
Severe Contraction in Wage Levels	Contraction in Wage Levels	Zero Growth in Wage Levels	Mild Rise in Wage Levels	Increasing Wage Levels	Strong Rise in Wage Levels
Public Fear	Decreasing Productivity	Low Productivity	Mild Productivity	High Productivity	Record Productivity

Retirement Sharpens Focus on Risk

No matter how carefully you try to protect your portfolio, you can't stamp out risk. In various forms, it is always present, ready to subvert any ideas about safety.

In your earlier years of investing, if you concluded that the assets you held were not very wisely chosen, you had time on your side. By simply restructuring the elements of your portfolio, you could allow many years of growth and compounding values to overcome earlier mistakes. Historically, at least, financial assets have tended to grow in value despite cycles of recession and recovery and bear and bull markets.

When you retire, the pattern of market cycles won't change, but your personal timeline has – it is not as likely to work in your favor. What can you do?

Sharpening the Image

First, you can sharpen your focus as you near retirement. Don't put off carefully analyzing how your portfolio is functioning. If it doesn't appear to be ideally suited to your changing needs, make adjustments sooner rather than later.

The asset allocation that works best for you depends largely on your time horizon and your ability to tolerate risk. Your time horizon is shorter than before. How do you regard your risk tolerance now, in the wake of the market volatility over the past two years? Within your mix of cash, fixed income and equity investments, are you diversified in an appropriate manner, so as to provide a firm financial foundation for the kind of retirement you've planned? Are there other considerations that need to be addressed, such as concentrated equity positions?

Are you better able, now that you're a little older, to estimate what financial resources you'll need to handle family or health issues? There are no certain answers, and health and longevity are unknowns, but realistically assessing their likely impact on your retirement may help you better position the assets in your portfolio. Poor health can lead to costly care that can quickly drain your wealth. If you're in great shape, on the other hand, you may decide to travel more extensively and longer into your retired years than you had imagined – that could strain your resources, too.

Risk Realities

In retirement, you face the same risks you always have as an investor, but your frames of reference are different.

Keep those changing points of reference in mind as you monitor the performance of the assets in your portfolio. You may have easily made the necessary changes to turn your financial engine from an accumulation machine into an income generator, but that doesn't mean your investments aren't subject to the same market, inflation and currency risks they always faced.

It may be time to give your portfolio a little retirement-related risk therapy. If you have changes in life circumstances that should be reflected in your portfolio, please feel free to call me.

From *Financial Journeys* newsletter – January 2010

Material prepared by Raymond James for use by its financial advisors.

We are looking for financial advisors to join the branch.

Call 585-1212, if you are interested or would like to refer someone.

Roth IRA Conversions—Opportunities in 2010

Remember when 2010 seemed like light years away? 2010 brings a lot of uncertainty within the financial realm with estate planning and sunset provisions in question. One thing we know is that the 2010 Roth IRA conversion opportunity is here.

Converting to a Roth IRS is not new, so what is all the buzz about a Roth IRA Conversion in 2010? What makes it such a big deal is that up until 2010, most people couldn't convert to a Roth IRA because their income was too high. For example, in 2009 if an individual or married couple had an AGI of over $100,000 the conversion was not an option. But this year all that changes and that's what makes it exciting. Those who have been salivating on the *tax-free benefit of the Roth IRA will finally get to sink their teeth into it.

*Unlike the traditional IRA, withdrawals from a Roth IRA are generally tax-free, but not always and not without certain stipulations (i.e., tax free when the account has been opened for at least 5 years for principal withdrawals and the owner's age is at least 59 ½ for withdrawals on the growth portion above principal). And an advantage of the Roth IRA over a traditional IRA is that there are fewer withdrawal restrictions and requirements.

Here are some of the highlights of the Roth IRA conversion opportunity:

2010 is the year but not the year the tax is due: While 2010 is the actual year that you can convert; the income to be claimed can be deferred until 2011 and 2012. Expecting a vast majority to take advantage of this, the IRS has set up special provision on how the tax will be paid. The IRS has granted those who convert the option to claim 50% of the conversion amount as income in 2011 and the remaining 50% in 2012.

You can save taxes now**:** If you know that you are going to convert in 2010, it might make sense to go ahead and start accumulating the tax money now. Since you will be taxed at ordinary income levels you can get a sense of what the tax bill will actually be at the time of conversion. So why not add a little extra to your emergency fund to insure that you have enough to pay the tax bill?

Convert Traditional IRAs and Old 401(k)s**:** The 2010 conversion is not limited to just your traditional IRA. If you have any old 401(k)s or any other retirement plans from a previous employer, those will also be allowed to convert as well. Might be a good idea to see if it makes sense to convert them too.

What's the Cost Basis?: If you have an old 401(k) that you have rolled over into an IRA, the question might be what do you use as the original tax basis? For a 2010 conversion or any conversion in general, the basis, or the amount that you will be taxed on, is the amount of the account at the time of conversion. This means that if your account value is down, the tax on the conversion should be more favorable.

*Restrictions, penalties and taxes may apply. Unless certain criteria is met, Roth IRA owners must be 59 1/2 or older and have held the IRA for 5 years before tax-free withdrawals are permitted.

About Liza Campa-Flanagan…

Liza (pronounced Lizza) has been an active professional in the financial services industry for over 20 years. She is a Certified Financial Planner™ and Certified Investment Management Analyst in addition to satisfying the educational requirements to be Registered as a General Securities Principal with Raymond James Financial Services, Inc. Liza also holds life, health, and variable annuity licenses in the State of Florida. She graduated with distinction from Eckerd College in Florida with a B.A. in Business and Management.