Nicholson Financial Services

Did you know...?

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"There is never a better time to buy a company than when it's price is down, it's industry is down, and the market is down." - Peter Lynch

While we had all hoped the year would start out as December ended, with a rally, instead we got a market that was fearing either impending failure of more large banks or, even worse, nationalization of them. I discuss this further in the first article of this newsletter.

Over the next few weeks, I will be starting a new service in my practice. I will be offering "webinars" for my clients. These are essentially conference calls, with the aid of a website that people can go to to see a presentation that follows the call. Look for an email from me in the near future with the details of the first webinar.

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In this issue:

Some important observations...

While I had hoped that the markets would begin to rally without having to retest the November lows, it was not to be. Moreover, the markets actually broke through those lows over the past few weeks...and caused a considerable amount of angst in the process. However, it is interesting to note that outside of the financials, many stocks have actually been improving over the last few months. My opinion is that the major market averages have suffered because of certain financial companies that have dropped an additional 50-75% since November. Compare that to, for example, Best Buy (BBY) at $32.67 on 3/18/09 up from a low of $16.42 on 11/21/08 and Google (GOOG) $338.13 on 3/18 up from $247.30 on 11/21. Plus, not all financials have done poorly. Goldman Sachs (GS) has already doubled from its November low and Aetna (AET) has rebounded about 75%. Still, it is pretty clear to me that we need to see some stability and good news from the financial sector to get the major market averages to have a meaningful rally. My belief is that one of the primary fears weighing on the markets over the last couple of months was the potential nationalization of many large banks. However, some of the news that has come out over the last two weeks has clearly inspired some confidence and caused the DJIA and S & P 500 to bounce over 20% from the lows during the week of 3/6/09. Here are some of the recent announcements:

1) Citigroup (C) and JP Morgan Chase (JPM) both announced (3/10 & 3/11) that they are showing profits through the first 2 months of the year. This was quite an unexpected, positive surprise for the markets. More important, these companies and a few others have now indicated that they intend to start paying back the TARP money. Bank of America announced (3/18) that its goal is to repay the $45 Billion in TARP funds it received by late this year to early 2010.

2) There is growing support for reinstating the "uptick rule" (a rule to limit short selling in a falling market). I still do not understand why the uptick rule was removed in the first place. However, SEC Chairman Mary Schapiro recently commented that she would support reinstating the rule.

3) The Federal Reserve has said that there needs to be "major changes" to the "mark to market" accounting rules.

4) On 3/23, The US Treasury revealed details of a highly-anticipated plan to set up public-private investment funds that will buy up to $1 trillion in troubled loans and securities at the heart of the financial crisis.

Although the removal of the uptick rule and the adoption of mark to market rules did not create this mess, I agree with those who believe that these things have added to the instability. I also believe that fixing or adjusting those two issues should help to stabilize the markets and add to restoring confidence. However, it is the fourth point above that I believe will have the most impact. Apparently, investors thought so as well, as the DJIA rallied almost 500 points the day the plan was announced.

What should we be doing now as investors? We continue to review client holdings to make sure that they are in high quality investments. I believe clients should be starting or increasing automatic investment plans, not decreasing them. This, of course, is as cash flow permits. Although I have not had many people decrease their automatic investments, I understand that the emotional reaction is to stop adding to investments until "things get better." I believe the markets will have a significant rally before people feel like things have gotten better. I don't want my clients to miss that.

When asked how he was able to be so good for so long, Wayne Gretzky once replied: "I don't go to where the puck is, I go to where the puck is going to be." I continue to believe that now more than ever, this attitude can help investors to potentially profit from this environment.

Retirement Plan and IRA Limits for 2009

An increasing number of retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2009 are discussed below.

Elective deferrals

If you're lucky enough to be eligible to participate in a 401(k), 403(b), 457(b), or SAR-SEP plan, you can make elective deferrals of up to $16,500 in 2009, up from $15,500 in 2008. If you're age 50 or older, you also can make a catch-up contribution of up to $5,500 to these plans in 2009, up from $5,000 in 2008.

If your 401(k) or 403(b) plan allows Roth contributions, your total elective contributions, pretax and Roth, can't exceed $16,500 ($22,000 with catch-up contributions). You can split your contribution any way you wish. For example, you can make $9,500 of Roth contributions and $7,000 of pretax 401(k) contributions. It's up to you.

If you participate in a SIMPLE IRA or SIMPLE 401(k) plan, you can contribute up to $11,500 in 2009 (up from $10,500 in 2008). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2009 is $2,500, unchanged from 2008.

IRA limits remain the same for 2009

The amount you can contribute to a traditional or Roth IRA remains at $5,000 for 2009, and the maximum catch-up contribution for those age 50 or older remains at $1,000. You can contribute to an IRA in addition to an employer-sponsored retirement plan. But if you (or your spouse) participate in an employer-sponsored plan, your ability to deduct traditional IRA contributions may be limited, depending on your income. Roth contributions are also subject to income limits.

Contribution limits: 2009 tax year* (2008 limits in parentheses)

Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), and 457(b) plans**	$16,500 ($15,500)	$5,500 ($5,000)
SIMPLE plans	$11,500 ($10,500)	$2,500 ($2,500)
Traditional and Roth IRAs	$5,000 ($5,000)	$1,000 ($1,000)

*Contributions can't exceed 100% of your pay. If you participate in a 403(b) or 457(b) plan, special rules may allow an even greater catch-up contribution.
**$5,500 catch-up applies only to governmental 457(b) plans.

Some other key numbers for 2009

For 2009, the maximum amount of compensation your employer can take into account when calculating SEP and qualified plan contributions and benefits is $245,000 (up from $230,000 in 2008).

The maximum annual benefit you can receive from a defined benefit pension plan is limited to $195,000 in 2009 (up from $185,000 in 2008).

And the maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit sharing plan) in 2009 is $49,000 (up from $46,000 in 2008), plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Income phaseout range for determining deductibility of traditional IRA contributions in 2009	
1. Covered by an employer plan	
Single/Head of household	$55,000 - $65,000 ($53,000 - $63,000 in 2008)
Married filing jointly	$89,000 - $109,000 ($85,000 - $105,000 in 2008)
Married filing separately	$0 - $10,000 (same for 2008)
2. Not covered by an employer plan, but filing joint return with a spouse who is covered	$166,000 - $176,000 ($159,000 - $169,000 in 2008)
Income phaseout range for determining ability to fund Roth IRA in 2009	
Single/Head of household	$105,000 - $120,000 ($101,000 - $116,000 in 2008)
Married filing jointly	$166,000 - $176,000 ($159,000 - $169,000 in 2008)
Married filing separately	$0 - $10,000 (same in 2008)

What You Don't Know Can Hurt You

You've probably heard the saying, "what you don't know can't hurt you," but when it comes to your finances, ignorance is not necessarily bliss. It's easy to make bad financial decisions when you lack sufficient information or you are misinformed. By the time you realize your mistake, it's usually too late to correct it. Here are several common mistakes that can be avoided with just a little bit of forethought.

Naming the wrong insurance beneficiary

Life insurance has many benefits. Among them is the fact that death benefits are generally paid directly to the beneficiary you name in the policy without passing through probate. But what happens if the beneficiary you name is unable to accept the death benefit, because he or she is a minor, deceased, or incompetent? In these circumstances, unless you've named an alternate beneficiary, the life insurance proceeds will be subject to all of the expenses and delays associated with settling an estate through probate.

You could make financial decisions that turn out to be wrong because you lack sufficient information or you were misinformed altogether.

What can you do before it's too late? Review your life insurance beneficiary designations at least annually to be sure the proceeds will pass to the proper beneficiary without the involvement of probate. Also, consider adding at least one contingent or alternate beneficiary in case the primary beneficiary is unable to receive the proceeds.

Selecting the wrong pension option

If you're lucky enough to have an employer-sponsored pension for your retirement, the distribution choices you make usually can't be changed, regardless of whether your circumstances change. Before making your choice, get all of your plan's options from the plan administrator and review them with a financial professional who can help you crunch the numbers. Estimate your retirement income needs, then determine what the best strategy is for you and your family.

What can you do before it's too late? If you're married you're required to take a joint and survivor option, unless your spouse waives his or her rights to your pension. If you elect the single life option, your payments will be larger, but at the expense of a future spousal benefit. If you choose the single life option, make sure you have plenty of other income or life insurance to replace the pension for your surviving spouse.

Owning assets jointly

Owning assets jointly often can be a good strategy to avoid probate or minimize estate taxes. However, this form of asset ownership also has disadvantages. The joint owner has equal rights to the jointly owned asset, meaning he or she can withdraw from a joint bank or brokerage account or sell his or her interest in the asset without your consent. In addition, adding someone's name to an asset may be considered a gift, subject to possible gift taxes. And, owning assets jointly exposes those assets to the creditors of your joint owner. Finally, with respect to long-term care planning and Medicaid qualification, adding a joint owner can negatively affect your Medicaid eligibility.

What can you do before it's too late? Consider the ramifications of joint ownership carefully before implementing this strategy. If your intent is to leave the asset to the joint owner, alternatives such as payable on death accounts, trust designations, or life estates may accomplish your goal and protect your interest in the asset at the same time.

Underinsured homes

Imagine this scenario: you just suffered through a terrible fire that destroyed your home and most of its contents. You get an estimate on the cost to rebuild your home and file a claim with your homeowners insurance carrier. To your shock, you find that they are not going to cover the entire cost to rebuild. You thought your policy covered the full replacement cost of your home. However, the policy actually provides extended replacement cost, which offers up to 120% of the policy's face amount--not enough to cover all of the costs to rebuild your home.

What can you do before it's too late? Review your policy at least annually and make sure the face amount is enough to cover the cost to rebuild your home should the unthinkable occur. That means you need to know the approximate cost to rebuild, including any additions and improvements you made to the home. Also, take into consideration increasing costs of materials and labor.

Other common mistakes

- *Failing to provide for financial loss due to a non-work related disability*
- *Miscalculating how much life insurance you need*
- *Owning too much company stock in your employer-sponsored retirement plan*
- *Underestimating how long your retirement may last*
- *Overestimating the annual rate of return you'll earn on your investments*
- *Trying to save for your children's college education at the expense of saving for your retirement*

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Ask the Experts

Is it possible to accidentally disinherit my heirs?

Yes. One of the most tragic estate planning mistakes is unintentionally disinheriting an heir. Here are some of the most common ways this unfortunate situation can occur.

One of the biggest causes of accidental disinheritance is the simplest: failure to make a will. In this case, property passes according to the intestacy laws of the state in which you're "domiciled."

Making an ineffective or faulty will can also result in misdirected allocations. For example, you may fail to provide for children born after you make your will (this is what happened to Anna Nicole Smith and Heath Ledger). The lesson here is to forgo the do-it-yourself kit and hire an experienced estate planning attorney to draft and execute your will, and review it every year or two.

Failing to update your will can result in allocations that are made according to an old will. This can lead to unwanted allocations (for example, the disinheritance of children when Mom or Dad remarries and everything passes to the new spouse). Make it a rule to review and update your will periodically, especially after major life events such as marriage, a birth or adoption, divorce, or death. Also, update beneficiary designations (for life insurance policies, retirement accounts, payable on death accounts, etc.) annually. And, remember that beneficiary designations trump provisions made in your will.

A fourth cause of accidental disinheritance is what's known as ademption. This is the failure of a specific bequest made in a will because the property no longer exists in the decedent's estate for some reason. For example, you might leave your car to your son in your will, and then sell or gift it to someone else before you die. A similar situation can occur when a life insurance policy is allowed to lapse (so check that your elderly parents don't forget to make their premium payments).

How do I purposefully disinherit an heir?

While you can easily disinherit a nonheir by not mentioning him or her in your will, the rules are more complicated when it comes to your heirs. Merely not mentioning the name of a child or spouse in your will might not disinherit him or her, and doing so can even open the door for a will contest. In a will contest, the heir who is left out could argue that he or she was mistakenly overlooked. The outcome of a will contest depends in part upon your state's law regarding an omitted (referred to as "pretermitted") spouse or child.

To be sure that your intent to disinherit an heir is unequivocal, you should consider including a disinheritance clause in your will. Such a clause can discourage the disinherited heir from contesting your will. This clause would indicate the exact name of the heir you wish to disinherit, and explicitly state that the reason he or she is not included is because you wish to disinherit him or her.

Be aware that in most states, you cannot disinherit your spouse completely. If you live in a community property state, your spouse automatically owns one-half of the community property, which generally includes property that either of you acquired during your marriage. In all states, spouses are protected from disinheritance because they're allowed to claim a statutory share (also known as "electing against the will"). A statutory share can run anywhere from one-quarter to one-half of an estate, regardless of the terms of your will.

Also be aware that, while you have the right to disinherit a child, that right is restricted by laws that grant certain inheritance rights to minors, and protect children of any age from accidental disinheritance.

You should consult an experienced estate planning attorney if you're considering disinheriting an heir.