

January 11, 2010

2009 Year-End Results

What a year! The year 2009 began rather nicely compared to 2008, and then, about mid-January, took a nasty turn downward that lasted until the beginning of March. After that, the stock market showed a great deal of volatility, but moved upward for the balance of the year.

If we went back to October 8, 2007, the S&P 500 had a high of 1576. At the low point on March 2, 2009, it was 667, a drop of 58%. The S&P 500 then rebounded so that at the opening on January 4, 2010, it was at 1117. While this change from March was positive, what we saw for the year 2009 was a gain in the S&P 500 of about 20% but still down about 29% from its high in 2007.

Bonds, on the other hand, were a very different story. As the lack of liquidity was so bad coming into 2009, interest rates went soaring, bringing down the value of bonds. As things began to stabilize during 2009, rates came down and bond values rose. For example, The Bloomberg High Yield Corporate Bond Index was yielding 25% at the beginning of 2009 and ended the year with yields of below 10%. Reductions in bond yields helped bonds have a good year.

A Quick Look at the Coming Year

As we look to 2010, the economy appears to be improving. You can follow some of my thoughts about this on my blog at secureplanning.com. A concern is that, as the economy improves, consumers spend more, businesses spend more

and the government finances more debt. This could lead to rapid inflation with a negative impact on bond values as rates rise, a negative impact on housing as mortgage rates increase and possibly a reduction in anticipated earnings by corporations, as they must pay higher interest rates on borrowed funds. This could then lead to higher wages and a cycle that would not be pleasant. It's not the case yet but I am watching to see what happens.

IRA Conversions to Roth Plans

A big talking point for this year will be conversions of IRAs to Roth IRAs. The government is giving high wage earners (high tax payers) a onetime chance to move IRA money into a Roth IRA. This is not for everyone. **It seems to work best for people who believe that in retirement they will be in a higher tax bracket or people who will not need the money during their lifetimes and want to leave it to family members.**

To make the conversion you must show added taxable income equal to the amount you are converting, and pay tax on that amount in your tax bracket (or possibly a higher bracket). To make this work, you must be able to pay the added tax you will owe with money from other assets or income. If you are interested in a conversion of your IRA to a Roth IRA, please let us know and we will do an analysis to see if it makes sense.

Read more of Ed's thoughts on his blog at <http://secureplanninginc.blogspot.com>

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Estate Tax

Since 2001, the amount of an estate that is not subject to Federal Estate Tax has risen from year to year, thereby allowing more estates to avoid the tax. In 2009, the exemption from the tax was \$3.5 million. It had been assumed that, at some point, Congress would amend the law and settle on an appropriate amount, perhaps indexed to inflation. That did not happen.

The law also said that the estate tax in 2010 would vanish (no estate tax at all regardless of the size of the estate). That is what has now happened.

The bad news is that there is a “Sunset” provision and the law dies at the end of 2010, reverting back to the law of 2001. In 2001 the exemption was \$1 million. The tax rate will also revert back to 55%. This is a tax and planning dilemma and also could be a moral dilemma.

Imagine grandma has an estate of \$3 million and is not doing well in the latter part of December 2010. Do you let grandma die in 2010 to avoid the \$1+ million estate tax, or try and keep her alive into 2011? Taxation should not create these types of issues. My guess is that Congress will likely go back to the \$3.5 million exemption.

E-Mail Addresses

We are pleased that we are now able to send the quarterly newsletter and new blog alerts by e-mail. If you are receiving this newsletter in paper form, we don't have a current e-mail address for you. Please email us with your current address at CarolineR@SecurePlanningInc.com.

401Ks Revisited

Over the years, many of our clients have asked us to review their 401k allocations. We have been pleased to do this so that the 401k is integrated with their long term planning and investment risk profile. During the past two years, we have taken a defensive posture on how to invest the plans and that has proven beneficial.

We are now at a point where we want to migrate the 401k plans back to a more fully invested and traditional allocation. If you have a 401k for which we have suggested investment choices, please contact us so that we can review your current allocation and the choices now available in your plan and update our suggestions.

Conference Call

We will be conducting our quarterly conference call on Wednesday, January 20th at 3PM EST and 1PM MST. If you are interested in participating, please give Caroline Rose a call at 1-800-433-5515.

Thank You

I want to thank you for your patience and caring during the past two years. They have been difficult years and we are all looking forward to a sense of normalcy in 2010. I promise you that I and my staff will do our best to make this a good year for you.

Ed Mallon

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