

Perspectives

First Quarter 2010

Aligning Your Goals with the Current Financial Landscape

As the markets rebounded during the fourth quarter of 2009, outright fear has been assuaged but anxiety still runs high as inflation rates, the state of the housing market, and the unemployment rate remain at bear-market levels. As we begin the new year, now is a perfect time to assess how these factors and the items below may affect your financial portfolio and how you can position yourself for success in 2010.

Your Risk Tolerance and Time Horizon

As the markets change, so may your risk tolerance and projected time horizons. As we emerge from the bear market that encompassed 2008 and 2009, it's important to remember that while paper losses are disconcerting, they are just that—paper losses. Although past performance is not indicative of future results, investors with a longer time horizon are more likely to recoup their losses and then some, based on the improving market and market history. Now is the time to reassess your risk tolerance and time horizon for needing your invested assets. We have the tools and resources to properly measure how any paper losses you have experienced may affect your current goals and investment timeline and what actions should be taken to get you back on track.

Taxation in 2010

Tax season is almost upon us, and taxation in 2010 is likely to be an important aspect of your overall financial plan. It's imperative for you to ensure that your tax and financial plans are properly aligned. Below are a few tax-related items for you to consider.

2010 Tax Credits

The federal tax credit for energy efficiency expires December 31, 2010, and covers up to 30 percent of costs up to \$1,500. Energy-efficient appliances including biomass stoves; air conditioners, furnaces, heat pumps and boilers; insulation; metal and asphalt roofs; non-solar water heaters; doors and windows; fuel cells; and some wind and solar energy systems are eligible for the tax credit. New construction and rentals do not qualify for the credit, and the energy-efficient appliances must be for an existing home and your principal residence.¹

¹ "Federal Tax Credits for Consumer Energy Efficiency."
http://www.energystar.gov/index.cfm?c=tax_credits.tx_index

² "American Recovery and Reinvestment Act of 2009."
http://www.realtor.org/government_affairs/gapublic/american_recovery_reinvestment_act_home

In November 2009, Congress extended the \$8,000 tax credit for first-time home buyers until April 30, 2010. Current homeowners who have lived in the home they are selling as their principal residence for five consecutive years in the past eight years are eligible for a \$6,500 tax credit.²

Also keep in mind that the tax credits granted by the Economic Growth Tax Relief Reconciliation Act of 2001 (EGTRRA) are set to sunset at the end of 2010 unless any new legislation repealing the expiration is enacted. If you believe your estate tax will be higher than ordinary taxes—and it could be—or if you think your beneficiaries are going to be in higher tax brackets, this could be an optimum wealth transfer tool.

Roth IRA Conversions

The \$100,000 modified adjusted gross income (MAGI) limit for converting a traditional IRA or qualified plan to a Roth IRA was repealed effective December 31, 2009. As of January 1, 2010, you are able to convert to a Roth IRA without the \$100,000 MAGI limit.

The IRS has granted the option to pay the taxes owed on a conversion over a two-year window in 2011 and 2012, but this applies only if you make the conversion in 2010. December 31, 2010, is the last day you may convert to a Roth IRA with the advantage of deferring taxes over 2011-2012. Keep in mind you may also recharacterize once a year if there happens to be a further decline in the account value. The deadline for recharacterizing 2010 taxes is October 15, 2011 (if you file your return by April 15, 2011).

We can help you better understand the direction in which taxes are moving in 2010 and how this may affect you and your current financial plan.

Politics in 2010

The next presidential election isn't until 2012, but 2010 is a key election year for many reasons, and as evidenced in the past, politics can have dramatic effects on your financial plan. With the midterm elections set for November 2, 2010, the makeup of Congress is likely to change drastically as approximately one-third of the seats in the Senate and all 435 of the House seats are up for election. Further, gubernatorial races in states like Arizona, California, Illinois, New York and Pennsylvania are expected to have a major impact on the nation's political standing.

Any new legislation regarding healthcare and taxation passed before the upcoming elections could affect your estate, education and retirement plans. We can help you plan for how any political changes or events could potentially impact your financial plans.

Cash on the Sidelines

The average consumer price index (CPI), a measure of inflation, for 2008 was 3.8 percent,³ and according to a November 18, 2009, news release from the Bureau of Labor Statistics, the CPI for all urban consumers rose 0.3 percent in October 2009 and has increased 0.2 percent over the last 12 months on a not-seasonally-adjusted basis.⁴ Given these numbers, if you were to keep money in cash on the sidelines over the next year (and the CPI remained at approximately 4 percent), that money will have lost 4 percent of its buying power. Rather than losing value, a better option would be to invest that money in even the most conservative manner, where if it yields a net return of 4 percent, you at least would not be losing value in your cash account. Simply put, cash not invested can actually lose value over time due to inflation.

Gold Isn't Guaranteed

With all the recent media hype regarding the value of gold, it's important to remember that there is no such thing as a completely safe investment. Gold comes with no guarantees and can quickly lose its luster when investors truly understand how volatile gold prices can be. Consider the early 1980s when gold prices traded at record highs as many speculators rushed into gold in response to the inflationary fears of the 1970s, but then gold dropped more than 50 percent in value. Many of those speculators would have to wait more than 25 years for the price of gold to return to its 1980 peak.

While in measured amounts gold can provide diversification benefits to a portfolio, it should not be bought solely in response to inflationary fears or market concerns. Currently, gold is trading at or near a record-high price. Considering the fact that the price of gold is based primarily on supply and demand and can be highly volatile, consumers should be careful when investing in gold. After all, gold is a commodity, which is just another investment option.

Education

With public funding reduced as a result of the poor economy, states in financial trouble are forced to raise tuition to make ends

meet. A widely publicized example of this is at the University of California, which implemented a plan in November 2009 to raise tuition by 32 percent by the fall 2010 semester.⁵ In states such as Florida, New York and Washington, tuition this year increased more than 15 percent while in Arizona tuition has increased 24 percent.⁶ Nationwide, however, the increases have been less dramatic. According to a study by the College Board, tuition for the 2009-2010 academic year increased an average of 6.5 percent at public universities and 4.4 percent at private schools in the United States.⁷

Meanwhile, funding for Section 529 plans is on the decline. According to the College Board's 2009 Trends in Student Aid report, total assets in state-sponsored Section 529 college savings plans declined by 19 percent in inflation-adjusted dollars during the 2008 calendar year and by another 4 percent in the first quarter of 2009. From December 2007 through March 2009, the average value of individual accounts declined 33 percent, from \$13,313 to \$8,944, in inflation-adjusted dollars.⁸

The implications of these two factors on future college planning are beyond measure. The cost of education will likely only continue to increase, so if you haven't already started, now is the time to begin planning for your children and grandchildren's college tuition and expenses. We can help you prepare a strategy to ensure that you are prepared when your loved ones head off to school.

Moving Forward

With the new year officially underway, now is the time to get your 2010 plan in place. In order to be prepared for the coming months and beyond, it is vitally important to review your portfolio and ensure that your tax and financial plans align. We have the knowledge, tools and resources to create a proactive plan to help you mitigate risks and encourage financial growth in 2010. Don't wait; contact us today to schedule an appointment.

³ U.S. Department of Labor, Bureau of Labor Statistics. "Consumer Price Index." <http://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>

⁴ U.S. Department of Labor, Bureau of Labor Statistics. "Consumer Price Index - October 2009." <http://www.bls.gov/news.release/pdf/cpi.pdf>

⁵ Gordon, Larry. "UC Regents Committee Approves Student Fee Increases; At Least 14 Protesters Arrested at Meeting at UCLA." <http://latimesblogs.latimes.com/lanow/2009/11/a-university-of-california-board-of-regents-committee-today-approved-a-series-of-controversial-increases-in-student-fees-that.html?linkSource=edhat.com>

⁶ Eley, Tom. "U.S. College Tuition Skyrockets." <http://www.wsws.org/articles/2009/oct2009/tuit-o22.shtml>

⁷ "2009-10 College Prices." <http://www.collegeboard.com/student/pay/add-it-up/4494.html>

⁸ "Trends in Student Aid 2009." http://www.trends-collegeboard.com/student_aid/pdf/2009_Trends_Student_Aid.pdf



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8150 N. Central Expy., Suite 500, Dallas, TX 75206
(877) 959-8400
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