focus On...

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A bulletin highlighting topics of interest for clients of Financial Focus

focus On... Financial Markets & Fairy Tales

Hear the one about Rip Van Winkle and the Ugly Duckling? Sounds like a Hollywood horror movie – doesn't it? It's not. It's just one financial analyst's description of two stock market cycles.

We recently spoke with Robert Brown, Ph.D. and chief investment officer of GE Private Asset Management. Brown remembers his childhood fairy tales well, and we think you'll find his analogy quite interesting.

Brown likens the amazing bull market run from August 1982 through March 1998 as the Rip Van Winkle era. During this period the S&P 500 index was up a whopping average 19.9 percent annually.

Not only were the largest US stocks up in value, but almost every other stock sector increased considerably as well.

Thus, Brown theorizes, the investor could have gone to sleep in 1982 and awakened in 1998 as a profitable investor, no matter what investment he or she had chosen.

Brown cautioned that this period was probably a once-in-an investor's-lifetime opportunity. Most all investors remembered what happened when Rip Van Winkle's bull market came to an end - few have lived happily ever after.

An important part of the story is that financial markets do cycle and, though past performance cannot guarantee future results, these cycles have historically averaged as long as fifteen years.

So what could that mean for the period from 1998 to 2013? Enter the Ugly Duckling, Brown said. You probably remember the tale of the baby swan living among ducklings. Though he thinks he's an ugly duckling, eventually he grows into a beautiful swan.

Brown theorizes that when the traditional market sectors are lackluster (ugly), the investor needs access to all asset classes to be profitable.

This may include diversifying into emerging markets, energy, commodities and precious metals, both in the US and abroad, depending on your risk tolerance.

Keep in mind, though, that diversification cannot ensure a profit or protect against loss. Keeping an eye on reality makes for a better long-term story.

The average investor may no longer be able to haphazardly pick an allocation or index fund. To find the swan, the investor may need to look beyond the traditional and depend more on professional management.

Keep in mind all these asset classes fluctuate with market conditions and it is important to assess your risk tolerance, time horizon and tax status before investing.

In This Issue We Focus On...

focus On... Accessing Your Account

We have just enhanced our website and added the ability for you to access the accounts you have with us anytime, anywhere and with all the security needed to keep your information safe and private.

If you would like us to make your account information viewable on-line, go to our website (fifo1.com). Click on the "Client Accounts" link at the top left of the homepage and follow the instructions. You can also call John Hovis at 760-431-3040 and he can get the process started for you.

Gloria D. Foote & Barbara J. Williams
Certified Financial Planning practitioners and partners in Financial Focus.

Financial Focus

1903 Wright Place, Suite 150
Carlsbad, CA 92008 (760) 431-3040

focus On... 2006 Tax Numbers

When you rang in the new year on January 1st, 2006, whether you realized it or not you now have a whole new batch of tax numbers for you to consider. The following presents some of the more important tax numbers you might like to know. For a more complete list of 2006 tax numbers you can visit our web site at the following address for a data sheet highlighting the 2006 tax rules to remember.(www.fifo1.com/documents/Tax%20Rules%20To%20Remember.pdf)

The most important figures for your consideration is the changes to the tax brackets for 2006. The following table highlights the tax brackets for single and married individuals.

Single Tax Payers

Income Range	Federal Tax
Less Than $7,550	10% of your income
Between $7,550 & $30,650	$755.00 plus 15% of income above $7,550
Between $30,650 & $74,200	$4,220.00 plus 25% of income above $30,650
Between $74,200 & $154,800	$15,107.50 plus 28% of income above $74,200
Between $154,800 & $336,550	$37,675.50 plus 33% of income above $154,800
Over $336,550	$94,653.00 plus 35% of income above $336,550

Married Tax Payers

Income Range	Federal Tax
Less Than $15,100	10% of your income
Between $15,100 & $61,300	$1,510.00 plus 15% of income above $15,100
Between $61,300 & $123,700	$8,440.00 plus 25% of income above $61,300
Between $123,700 & $188,450	$23,040.00 plus 28% of income above $123,700
Between $188,450 & $335,550	$42,170.00 plus 33% of income above $188,450
Over $335,550	$91,043.00 plus 35% of income above $335,550

For those still in the workforce there are new tax numbers for you to keep in mind. The income limit on which you will be taxed for Social Security has increased to $94,200 in 2006. This means that the most you will pay in Social Security (not including Medicare) will be $5,840.40. If you have a 401k plan at work the maximum amount you can contribute for 2006 has gone up to $15,000. If you are over 50 years old you can participate in catch-up provisions that can enable you to contribute even more to your 401k.

Tax figures impacting your tax filing situation have also changed for 2006. Now your personal exemption is worth $3,300 each. Standard deductions for single tax payers under 65 has gone up to $5,150. For married couples under 65 the standard deduction has increased to $10,300.

For those already retired, you need to be aware that the tax implications on your Social Security benefits has also changed for 2006. Social Security becomes taxable at the 50% level at $25,000 for singles and $32,000 for married tax payers. It is taxed at the 85% level on income above $34,000 for singles and $44,000 for married tax payers. These income figures include tax-free income.

Does the changes in these tax figures impact you? You may want to contact your tax preparer to see if changes need to be made.

focus On... Making IRAs Live On After You're Gone

By retirement, some of you will have had the wisdom and good fortune to gather financial resources sufficient for a comfortable retirement without having to tap into your IRA.

If that's your case, you'll likely find the stretch IRA concept of great interest. Here's why: A stretch IRA can protect your beneficiaries from immediate taxation and keep your gift alive for generations to come. Under the right circumstances, IRAs can live on well past your death and your spouse's death, and they can be especially valuable to a non-spouse beneficiary.

A stretch IRA is not like a traditional or ROTH IRA. It gives the IRA beneficiary the option to stretch or take distributions over the course of his/her life expectancy rather than all at once. This one-lump distribution can mean paying big taxes.

There are some benefits to stretching an IRA. Beneficiaries can stretch the income as well as the taxes over their lifetime.

After an IRA owner's death, a spouse beneficiary usually "rolls over" the funds to their own IRA account.

Non-spouse beneficiaries, such as a son, daughter or friend, can never roll funds into their own IRAs, but they do have the option of rolling funds into a decedent's IRA that contains both the original owner and beneficiary's names. The beneficiary must annually take the required minimum distribution (RMD) based on their own life expectancy. There are some very big penalties if beneficiaries don't follow these rules. Failing to withdraw the RMD means a penalty of 50 percent of the amount that should have been withdrawn, plus income taxes.

The goal is to spread the taxable income over the beneficiary's lifetime.

As and IRA owner, it is important to read your IRA custodial agreement. Some custodians will not allow your beneficiaries to transfer the account elsewhere or stretch distributions out more than a few years. If you want your beneficiaries to be able to take advantage of this powerful strategy, make sure the custodian will allow it. If not, move to one who will. Remember, it is your money. Plan how you want it handled now and when you are gone.