

# News & Views



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## Thoughts on the market

Since the so-called Flash Crash happened two weeks ago, we have seen the return of anxious markets and their associated volatility. It thus appears that 2010 will offer no repeat of last year's dramatic rise in asset prices. We are not surprised by these jitters, and indeed we have long planned for such disruptions by trying to incorporate reasonable buffers within our portfolios. Although we agree that the current values of financial assets are based on relatively rosy economic conditions going forward, stocks and bonds can still produce modest growth over the next 3 to 5 years. We therefore keep portfolio expectations moderate, and focus on managing risks sensibly and consistently.

## One step ahead of identity fraud

There is plenty of information available on what to do after you've become a victim of identity theft, but what can you do to keep private information from falling into the wrong hands, other than never applying for credit, or not using your credit card and the Internet? Now private identity protection companies such as [TrustedID](#) and [LifeLock](#) offer a range of services including placing fraud alerts and credit freezes on your credit history, monitoring Internet sites for misuse of your personal data, and providing loss insurance. [Debit](#) not only freezes your history, but calls you for verification when an account is being opened in your name. And for online shoppers, [Shop Shield](#) offers protection against keyloggers (programs that capture information entered on keyboards). Before spending any money, however, read the [Fact Sheet](#) about such services at [Privacy Rights Clearinghouse](#) to find out what you can do on your own for free. Also check if your bank already provides ID theft insurance to account holders, if it's included in your homeowner's insurance, and what kinds of losses it covers.

## Roth IRA conversions

Everyone is talking about Roth IRA conversions. What are the possible downsides? IRA guru Ed Slott has identified [12 traps of Roth IRA conversions](#), and we'll mention a few of the highlights briefly. It's important to be clear that if converting in 2010, you have a one-time option to split the reported taxable income generated by the conversion between your 2011 and 2012 returns. However, tax rates may well go up by the time comes to pay the piper. In addition, a spike in reported income levels can also affect Social Security benefits, Medicare premiums, and college financial aid eligibility. Generally speaking, inherited IRAs cannot be converted, and special limitations pertain to Simple IRAs. If you're under 59 ½ and subject to the early withdrawal penalty, paying taxes with withdrawal proceeds will make that portion subject to the 10% penalty. The penalty will also apply if you withdraw any of the converted funds from the Roth account within five years of establishing it.

Should you and your financial advisor decide a conversion is right for you, the most prudent way of paying the tax bill should be discussed. One option would be to ask for a six-month extension on filing 2010 taxes to see what Congress decides about tax rates. If the value of your IRA were to decrease during that period, you would have an option of undoing the conversion rather than paying taxes on the higher value.

## Only the shadow knows

The Securities and Exchange Commission has adopted a rule requiring money market funds to disclose their fluctuating or "shadow" net asset values. Greater transparency will allow investors to know more about the holdings and risk profile of their money market funds, and become accustomed to seeing fluctuations. The SEC has also tightened maturity and credit quality standards as well as imposed stricter minimum liquidity requirements.

The mutual fund industry has expressed concern that adopting this rule could cause unnecessary anxiety among investors, who may interpret normal fluctuations as signs of distress and cause a run on the fund. Critics say additional regulation is needed to protect funds from the risk of runs, most importantly making real-time rather than delayed numbers available. Other measures being contemplated by the SEC include a two-tiered system of funds and a private liquidity mechanism for funds in times of stress.

## That old estate tax

In view of the uncertainty in 2010 regarding the future of the estate tax, we've decided it makes no sense to comment until the specifics on this complicated issue are clear. We will share an estate planning alert with our clients in June or July.

## To 529, or not to 529

Last fall, the Treasury Department issued a report recommending changes to the rules governing 529 (college savings) plans to make them more attractive and effective for middle-class families, such as making age-based index funds available in all plans; capping per beneficiary contributions; using a standard report format for investment returns; improving compliance and monitoring standards to lessen abuse; and making plan fees and tax benefits for planholders more uniform from state to state. Currently Maine is one of only five states that offer a tax deduction for contributions to 529s administered outside the state. The Obama administration encouraged states to adopt these recommendations, and last fall added computer and Internet access services as allowable expenses.

529 plans offer the same tax-free benefits as Roth IRAs if the distributions are used for qualifying educational expenses. But if your offspring decide not to go to college, your 529 investment earnings could be hit at the normal tax rate plus a 10% penalty. According to the Treasury report: "Relative to a taxed account, the incremental value of a Section 529 account without a state tax deduction for contributions varies from 6 percent for the low income person and a 5 year accumulation phase to 30 percent for the high income person and a 15 year accumulation phase. In the case of a Section 529 account with a state tax deduction, the incremental value ranges from 13 percent to 39 percent."

When taxes and penalties are applied, however, the net performance of the 529 pales in comparison to a taxed account, with the relative loss ranging from 5 to 11 percent. To quote the Treasury, you must "weigh the advantage of the account if the child goes to college against the disadvantage if the child does not go to college."

## Support your local artist

Non-profits frequently hold art auctions in order to raise needed funds, in the process providing "art bargains" for the collector. The artists, however, are only permitted under current tax laws to deduct the cost of the materials as a charitable contribution on Schedule A, presuming they itemize – a negligible amount. How can this imbalance be redressed? If an organization in which you participate is sponsoring an auction, ask the organizers to consider giving artists the option to take a commission on the proceeds of the sale of their work. Alternatively, buy a work of art from your favorite artist instead of requesting a donation, then donate it yourself to the auction. You get the tax deduction, the artist is paid for their efforts, and the organization still benefits.

## PFIG charitable giving

Each year PFIG contributes a percentage of its profits to charity. In 2009 we selected two worthy organizations whose programs promote personal finance knowledge. The mission of [Community Financial Literacy](#) is to enhance the lives of refugee and immigrant communities in Maine by teaching them financial literacy skills. Through the Maine Teachers Take FLITE™ (Financial Literacy Instructional Techniques for Educators) program, the [Institute for Financial Literacy](#) provides teachers with financial knowledge and curriculum ideas to equip K-12 students to make smart financial decisions throughout their lives. Please visit their websites to learn more about them.

## PFIG news

PFIG now participates in the Portland Park & Shop program. Our clients can receive up to two free hours of downtown parking at selected garages. We're putting the finishing touches on our latest client BRIEF. This edition will focus on tips and money-savers for travelers. As a reminder, we also offer clients the opportunity to broaden their understanding of financial topics through our lending library.

Brian has joined the Board of Directors of the Genesis Community Loan Fund, a statewide nonprofit organization helping to create housing and other economic and social opportunities for underserved people and communities. Tom was quoted in the *Wall Street Journal* and *Financial Planning* about Medicare supplemental policies and Medicare Advantage programs, and also in *Forbes* about the high cost of dental care.

Debra has been promoted to Director of Client Services at PFPG. During April, she exhibited landscape paintings along with artist Catherine Lo at Whitney Art Works, Portland's premier gallery of contemporary art. Her work has also been on view at Thos. Moser's Freeport showroom.

Marina Waisman, PFPG's Office Administrator in 2005 – 06, has just opened a new 5,000 sq. ft. play space for 0 – 5 year olds in Westbrook, the Peekaboo Children's Center. Former OA Kristin Rieff, (2001 – 04), is now the Volunteer Manager at Preble Street in Portland, an organization providing food, shelter, and other services to homeless adults and teens.

Our best wishes to you for a sunny and fun-filled summer!

Sincerely,

A handwritten signature in cursive script that reads "Tom Brian Debra".

Thomas S. Rogers, CFP® Brian L. Dietz, CFP®, CFA® Debra Yoo

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