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## The Irony of Technology.

### Partner's Note.

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I'm a CPA, a pencil-whipper, and an appreciator of the green eye-shade. I can remember doing taxes long-hand, and having to submit paper tax returns in anticipation of tax refunds that took months. It was the good old days, maybe.

I think the irony of the technological advances of the past 30 years can really be seen by everyone. We are connected, but tuned out. The conversations with kids can be summed up using abbreviations like LOL (laughing out loud), OMG (Oh my God), and others. We are a society that has crafted conversations using texts and e-mails that are sent leaving their interpretation to the person receiving our note. Where's the personal touch, as well as the body language that most people relied upon in order to gauge the effectiveness of their message? It might be periodically lost, but not forgotten.

The iPad2 was launched in March to a world of willing buyers. I'm convinced that portable computing innovations such as the iPad will eventually revolutionize the way that information is both collected and disseminated in our educational and medical systems. We consult to physicians that have commented that it's only a matter of time, and no longer a question of 'if' concerning the use of tablet technology in the medical field. Don't get me wrong - technology is a great thing, and as we can clearly see, innovation is the lifeblood of our country and will be expected to have a substantial impact to the bottom lines of many of the many companies in which we invest our capital. It's not only vital but an expectation for companies to continue their path of innovation in order to remain competitive in our global marketplace.

While some things have gotten better, we feel that the personal touches we may have been accustomed to might have gone by the wayside. Can we still connect via Skype, or iChat on a moment's notice? Sure. But, I can honestly say that we truly appreciate having the opportunity to see our clients face-to-face, shaking hands and sometimes exchanging a hug. Business needs to remain personal and it's our commitment to you and your family to keep it that way.

Good times.



**Robert W. Stibbs, CPA, CFP**  
Chief Financial Officer  
Principal and Co-Founder

#### Photos

Rendering of The Grand Hotel, Mackinac Island (cover)  
Round Island Light (opposite)





# CHARITABLE IRA DISTRIBUTIONS

EVER THOUGHT THAT GIVING TO YOUR CHARITY COULD BE DONE WITHOUT ACTUALLY WRITING THE CHECK? LATE IN 2010 THE GOVERNMENT EXTENDED THE PROVISION THAT ALLOWED INDIVIDUALS TO MAKE DIRECT CONTRIBUTIONS TO QUALIFIED CHARITIES FOR 2011 AND BEYOND USING THEIR RETIREMENT ACCOUNT.

**Photo**

Charlevoix Venetian Festival

**S**ome need a nudge, others need a shove. However, for many of us, giving to charitable organizations comes naturally. Do you really need tax incentives in order to create a need to give? Maybe, maybe not.

Starting in 2010 the government has again allowed IRA account holders the ability to transfer a portion of their IRA accounts to a qualified charity of their choice. The rules are similar to what has been done in the past, with very little change. IRA account holders who are beginning to take their required minimum distributions (RMDs), have the ability to shift those RMD payments directly to a charitable organization. In order to receive an RMD, you need to be over the age 70 ½ and there is a limitation on the amount of your IRA you can give to charity. The IRS has deemed that distributions up to \$100,000 may transfer from your IRA directly to the non-profit organization.

As an example, an individual with a \$7,000 required minimum distribution amount can withdraw another \$93,000 and have the funds directly transferred to their charity. This means that your RMD doesn't hit your bank account, and neither does the \$100,000. Does this mean that you get to receive the funds first, then transferring the funds to your charity? We answer that question with a strong 'NO!' The funds must go directly from your IRA account to your charity without you so much as seeing the envelope.

Why is this beneficial? For many individuals who do not itemize on their tax return, it is difficult to receive the full tax deduction for your charitable contributions. Meaning, you make the contribution but since you opt for the standard deduction on your tax form there is little tax benefit in giving the funds away. With the IRA charitable rollover, you are giving those RMD funds directly to a charity, and since 100% of the proceeds of your IRA distribution went to the charity, you are getting a 100% deduction for the funds donated.

Many clients have asked about how to account for the deduction on their tax form. If a client conducts the charitable distribution properly without touching the funds, reporting is very simple. The 1099 issued from your custodian (in our case, Fidelity) provides a summary of the activity and the IRS is notified that the distribution was sent to the charity on your behalf.

It's also important to pay attention to what qualifies as a 'qualified charity' for purposes of the charitable rollover. Most churches as well as most 501(c) organizations qualify, but, not all private and public non-profit foundations are created equal. In some cases, foundations may not be a tax-favored recipient of your hard-earned IRA distribution. If you are ever in doubt, please consult your tax advisor or contact our office.

# PRINTING WITHOUT INK

HOW DID THE FEDERAL RESERVE MANAGE TO CREDIT THE RESERVE ACCOUNTS OF BANKS WITHOUT ACTUALLY HAVING TO ACTUALLY PRINT MONEY?

**Photo**

Sunrise over the Straits of Mackinac  
Breakwater at Mackinac Island

How did the Federal Reserve inject funds into the hands of the banks? Did they just turn on the printing presses, and will this eventually cause significant amounts of inflation? Let's take a look at exactly where the money goes, how it got there, and what may happen next.

The Federal Reserve is responsible for controlling the money supply to ensure that economic growth is sustained, with an eye on controlling inflation. As money is injected into the system, it is expected that those funds will eventually be used to purchase supplies, pay for labor, purchase machinery and expand businesses. With more currency in the system it can frequently create a 'bidding war' for resources, which ultimately causes inflationary pressures.

By injecting liquidity into the system, the Federal Reserve is trying to keep interest rates low for the foreseeable future. As rates continue to decline borrowers are able to borrow more capital cost effectively and as described above, more capital within the system can lead to the potential for economic growth, and maybe a bit of inflation. In this situation, did the Federal Reserve just turn on the printing presses in order to get more capital into the hands of the banks? Yes, they actually did. They simply credited the accounts that banks held with the Fed with additional reserves. These are known as 'reserve balances' and this is the number that has increased substantially since 2008. While the United States Treasury is the only Governmental entity that is authorized to print money, the Federal Reserve influences the balances that banks have on deposit with the 'Fed' by engaging in open market operations – either adding or removing funds from the bank's balance sheet. These reserves are then available for lending, or they can remain on deposit with the Fed.

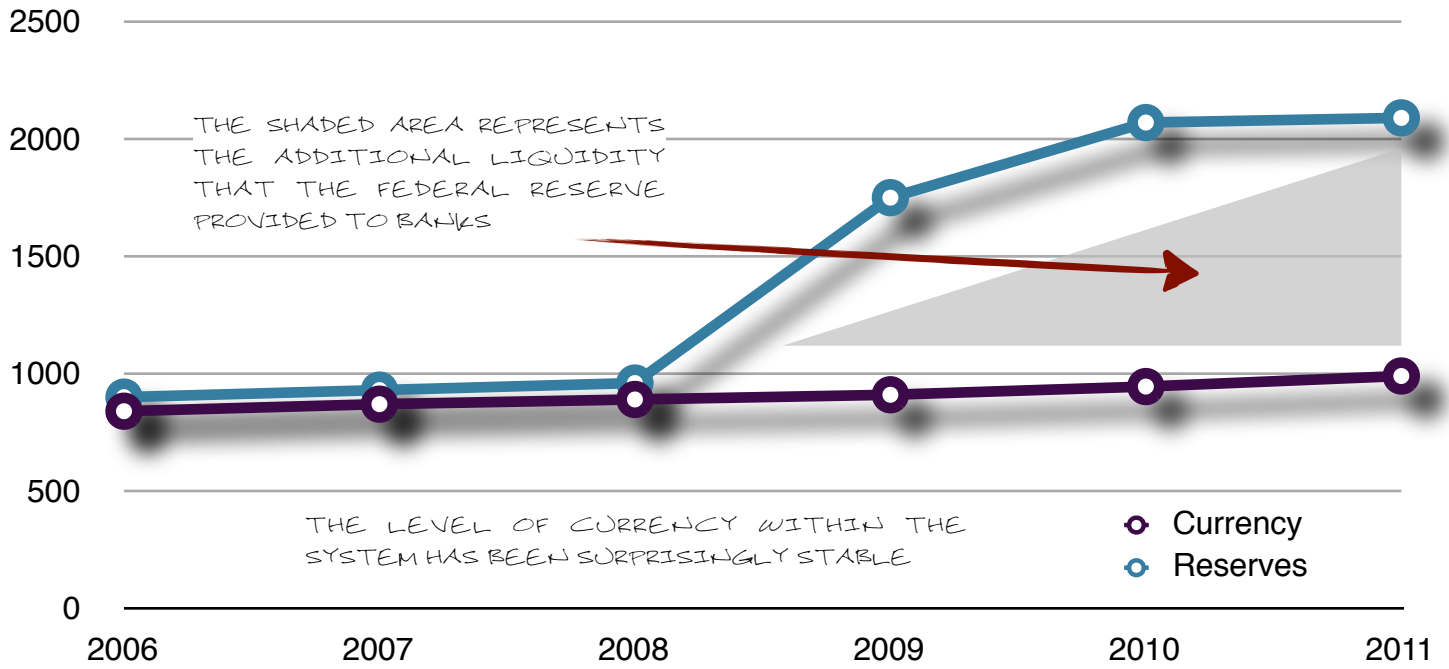


But, what if those funds are held in 'reserve' with the Fed, and really don't make it into the hands of those willing to borrow? As you may be aware, the level of bank reserves are at all time highs, and the level of currency in the system has hardly budged. Currencies are what you and I hold in our bank accounts, in our wallets and under our mattresses. The level of currency that is presently in circulation has been increasing at a rate of roughly 5% per year for the past two years – far less than most would have expected given the sluggish activity of the 2008 and 2009 economy. Believe it or not, this level of currency growth is actually a bit lower than the average growth for the past 10 years.

What does this mean? It tells us that banks have yet to lend to the consumer, which also means that future inflation may be moderated more than expected. The 'cheap money' that everyone fears is controlling the system has yet to be released into the hands of the

consumer and the coffers of business owners. The delicate balancing act for the Federal Reserve will come when they make arrangements to remove this excess liquidity from the bank's reserve. At that point, banks will have hopefully repaired their balance sheets, the consumer and businesses may be more willing to borrow, and the system will have reclaimed the 'cheap money' that many people thought would largely have been inflationary.

In our opinion, the massive amount of liquidity injected into the system was largely retained by the banking system. As you can see, the level of currency held outside of the banking system has been very stable. For those who think the system has been flooded with capital, it pays to look beyond the total and where the 'cash is stashed' rather than the amount of capital in the system. The numbers are radically different from the stories that are being told.



'CURRENCY' SHOULD BE REGARDED AS THE CAPITAL THAT IS PRESENTLY IN THE HANDS OF BOTH BUSINESSES AND CONSUMERS.  
'RESERVES' ARE THE BANK BALANCES THAT HAVE YET TO BE LOANED BY BANKS INTO THE HANDS OF BORROWERS.





# MICHIGAN RETIREE TAX CHANGES

In 2010 Michigan elected a new Governor, Rick Snyder, that is making sweeping changes to the income and business tax structure for Michigan residents. Among many changes is the taxation of pensions and retirement plan benefits for retirees. Take a short read to see how you may, or may not, be impacted by this change.

**Photo**

Jefferson Memorial, Washington DC

For clients living in Michigan this is a small 'heads up' concerning the future taxation of your pensions, IRAs and 401K benefits. In April, the Michigan Governor, Senate Majority Leader and House Speaker announced that an agreement had been reached on a tax portion of the budget. As most of us are aware, the budget in most states has been a hotly debated topic, as many states are finding ways to close the budgetary gap between tax revenues and state expenditures.

For business owners, there is a bit a reprieve. The Governor's stance is that jobs come from businesses and that the Michigan Business Tax (MBT) is an unfair form of taxation to those businesses who are creating jobs. In 2012, they are most likely going to repeal the MBT, giving businesses an incentive to reinvest funds into their own businesses rather than paying additional taxes.

Retirees may face the largest hurdle from the perspective of the proposed tax changes. Seniors over the age of 67 as of January 1, 2012 will not lose their pension exemption on their retirement income or other retirement income. They will, in essence, be grandfathered into the new system, with no change in their taxes owed. For those who don't know, Michigan does not tax the majority of an individual's pension or IRA income. They also do not tax Social Security income. There is a limit, however, concerning the level of pension and retirement plan income needed before taxes begin to be applied. For now and for the foreseeable future, those grandfathered under the old tax plan have little to worry about.

For those individuals who are ages 60 to 66 as of January 1, 2012 that receive pension and retirement plan income you might see a change in the taxation of your benefits. For individual filers, they will receive a \$20,000 exemption, and for married taxpayers there will be a \$40,000 exemption. Everything else will be included for Michigan income tax purposes.

There is a small reduction in the state income tax rate in 2013. For all individuals, the state income tax rate will be frozen at the present level of 4.35% but will roll back to 4.25% on January 1, 2013. When people born between January 1, 1946 and December 31, 1952 turn 67 they will also qualify for a senior income exemption of \$20,000 for a single taxpayer and \$40,000 for a married filer.

People presently under the age of 59, however, will become a part of a new program. Until this group turns 67 years old, they will find that both their pensions and their retirement plan income will be fully taxed on the state level. That's a significant change from the past when those individuals had the vast majority of their pension, Social Security, and retirement plan incomes completely state income tax free.

We recognize that this is a lot to digest, and for the time it is only a temporary agreement. In our opinion, this proposal has validity and seems to have support legislatively across a very large base. We would regard this as 'highly probable' that such an agreement will be applicable for 2012 and beyond.



# The *Kiddie* Roth

GIVING TO YOUR KIDS OR YOUR GRANDCHILDREN MIGHT BE FUN, BUT IT CAN ALSO PROVIDE FOR A FRUITFUL RETIREMENT. CHILDREN WHO HAVE EARNED INCOME MAY BE ELIGIBLE TO CONTRIBUTE TO A ROTH IRA. WE SAY SEND THE BIRTHDAY CARD TO THE KID, BUT SEND THE MONEY TO THEIR ROTH IRA INSTEAD.

**W**e've discussed the benefits in using the Roth IRA as a great wealth transfer vehicle, and it certainly adds value when you consider the tax-free features when taking income. But, what about considering the Roth IRA as way to give assets to your children, or your grandchildren? This can be beneficial, however, there are a few rules and considerations that you need to understand before you make any contributions.

First, let's look at the basic facts of using a Roth IRA. Any contributions made to a Roth IRA are not tax deductible. The earnings from Roth IRA contributions are considered to be tax free when withdrawn after the age of 59 ½ for the account owner, and in order to make contributions the account owner must have had a certain level of earned income. As an example, the minor made \$3,000 during the summer babysitting or working at the boat harbor and wants to save the funds. They can sock away 100% of the \$3,000 into a Roth IRA. If they made \$6,000 during the summer, they could only contribute up to a limit of \$5,000. Either way, a Roth can be a very efficient and effective way to save.

Generally speaking, the child's income is generally tax-free and the deduction by contributing to a regular IRA is virtually worthless since they are in the 0% income tax bracket. This is due to the fact that minors and students can be claimed up to the age of 24, provided they are full time students, by their parents as dependents. That means that the parents get a standard deduction up to \$5,800 for the child, giving the child up to \$5,800 in tax-free earned income.

So, instead of sticking those funds into a bank account, it might not be a bad idea to have the child become a little more accountable with their earned income. Advise them that they need to keep a general ledger of their income – no matter what the source. Cash from babysitting, or 'real' earned income through a part-time summer job will all apply. As they earn the income let them know that they can spend it any way they choose, and that you will make a contribution to their Roth IRA account equal to the amount they earned. This will give the child a little more accountability, and also give them an investment vehicle that

will allow them to escape the bonds of the IRS for decades to come.

The source of the funds contributed to the Roth can be from anyone – a parent or a grandparent. The only consideration is that the child *must* have earned income sufficient to justify the contribution.

There are a few other things to take into consideration. First, any assets belonging to the child may be used in consideration for any type of school financial aid at the time the child pays for college. This is not an insignificant consideration. Even though the parent's retirement accounts are 'off limits' for this consideration, the child's retirement account may not be. Second, finding a custodian that will permit minors to open Roth IRA accounts. Generally, this has been permitted by only a handful of companies.

The gifts that parents or grandparents make to the Roth IRA are tax-free to the recipient and also qualify for the annual gift exclusion that is permitted by the IRS. These gifts, by rule, cannot exceed the \$13,000 limit by each parent or grandparent, and since the limit for a Roth IRA contribution is only \$5,000, this can be a great fit.

We think it's a solid idea in efforts to make tax-free gifts to your children and grandchildren. Add the fact that the investment return compounding is done, potentially, over a 40 to 50 year timeframe, you have the makings of a successful retirement plan and intergenerational wealth transfer for your younger family members.

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Here is another interesting 'side benefit' of setting up a Roth IRA for a minor that generally is not the case with other types of accounts, other than trusts. Those parents who serve as the 'custodian' for the minor's Roth IRA can continue to serve as the custodian for as long as they so choose. The minor has no right to demand that the financial institution relinquish control to the minor at the age of 18, or 21, and the custodian may continue to maintain control over that account for decades, or until the custodian decides to resign from the account.

This is an important feature only found in trust accounts and may carry a substantial amount of weight in the governance of the minor's Roth IRA for many years to come. In a worst-case situation, the minor may make attempts to litigate and the courts may agree that your custodial rights should be extinguished; however, assuming a normal relationship this may present a nice way to continue to control the Roth during the 'bumpy' periods of time where control is a good thing.

Control as a custodian, however, may not be in the best interest for a grandparent or even a parent in cases where their estates may be 'taxable' from an estate tax point of view. Why? The IRS may deem that you have both dominion and control over your child's assets and might include those assets in the estate of the deceased parent or grandparent for estate tax purposes. The chances of estates being taxable at this point are rather rare but it is still something that we would prefer to discuss prior to engaging a parent or grand parent as a custodian on a continuous basis. All in all, there are a series of positives and negatives and by weighing the benefits, it's a worthwhile strategy and concept.

# EMAIL SCAMS

THINK BEFORE YOU CLICK.

**Y**ou've received them, or at the least heard of them from friends, family or on the news. E-mail scams are a dime a dozen, but if you aren't careful you can lose more than just a few bucks. It's serious business when it comes to the safety and security of your personal information and scammers on the other side of the computing spectrum are out for your bank account.

What are the origins of e-mail scams? While some of them originate in the United States, most of the obvious scams have been documented coming from places far, far away from our country. Nigeria is a hotspot, and I think everyone can recall the e-mail they've received from a wealthy prince looking to get a family fortune out of a bank account in Dubai. With the promise of 15% of the bank account balance as an 'administrative fee', and the chance at getting upwards of \$10 million for your troubles, it just sounds like an excellent opportunity to get paid to help someone out. We've been approached in years past by clients that believed that this was a legitimate request. Once informed that it wasn't, it was a tough pill for the client to swallow, but it protected them from losing thousands of dollars.

The most recent scams are structured as 'links' in an e-mail message known as 'phishing' (pronounced 'fishing') scams. They rely on our quick instincts to click at most anything within an e-mail. Little do you know, the link you just clicked routed you to a fake website in the name of the bank or brokerage firm you work with. How can you spot a fake web address? Take a look at the end of the address. Does it end in something like '.ca', or '.uk', rather than '.com'? Generally, the bogus link will direct you to a website outside of the United States like 'www.secure.ebay.ca' – yes, you might see 'Ebay' in the web address, but it is a totally fake website. Something like a '.ca' web address is routed to Canada. Legitimate sites usually send out e-mails that have an e-mail address that exactly matches their website. As an example, you should be suspicious if you were ever to receive an e-mail from 'Fidelity@onlinesecurity.com'. While 'Fidelity' in the title of the e-mail might make you feel like you are getting a legitimate e-mail from Fidelity, the portion of the e-mail address 'onlinesecurity.com' should make you feel all queezy inside, since you know that Fidelity does not maintain their basic website as 'onlinesecurity.com'. Their website is 'Fidelity.com.' This is a major red flag.

How can randomly clicking on a link hurt? In more advanced cases, shamelessly clicking on a link can cause your computer to become infected with a virus that tracks your every move on the internet hoping to find you logging in to your bank account. Once you login to your bank account, the tracking 'bug' then monitors your keystrokes in efforts to capture your login and password. Once that's happened, they have access to your account information and make arrangements to transfer a good chunk of your bank account balance to a land, far, far away. The strange thing is that some banks have taken the stance that you failed to adequately protect your login and password and as a result the withdrawal was not due to a breach of their system – 'it was your fault for not adequately protecting your computer,' they'll say. It's a tough nut to swallow when this happens and the best defense is a strong offense by making sure your antivirus software and appropriate firewalls are up to date. Also, it doesn't hurt to check your credit on an annual basis just to make sure someone hasn't opened credit in your name inappropriately.

We've seen many of these scams on both a personal level through our own personal e-mails, and professionally through the comments and experiences with many of our clients. Apart from being very, very cautious, one of the easiest things you can do is contact our office. We would be very happy to take a look at ANY communication you receive from ANY institution – even despite the fact that we don't have the account under our control. In many cases, we can give you appropriate direction on whether it's legitimate or not. The phone call to our firm is free, and we are happy to help. Concerning your own accounts through our firm, we have established patterns of spending for many of our clients and should anything suspicious land on our desks, rest assured you will be receiving a personal call from one of your advisors.

Here are a few statistics that you should know. Identity theft is relatively rare, with only 3.5% of all consumers reporting some sort of theft or fraud last year. Seventeen percent of all individuals who received a report notifying them that their personal information had been compromised, reported some sort of theft. If you are notified that your card has ever been compromised, or that a vendor has had their data stolen, keep a vigil eye and make sure you watch your credit reports.

# Will the real website please stand up?

Take a short look at the following website addresses. Which would you click on? Which would you avoid? Can you spot the real website addresses that aren't meant to do you, your computer, or your financial life harm? The answers are found on the bottom of the page, with the description of why you might 'stay away' or click until your heart's content.

	YES	OR	NO
1.) <a href="http://147.12.456.66/PayPal/login.html">http://147.12.456.66/PayPal/login.html</a>	<input type="checkbox"/>		<input type="checkbox"/>
2.) <a href="http://secure-signin.fidelity.com.tsps.us/">http://secure-signin.fidelity.com.tsps.us/</a>	<input type="checkbox"/>		<input type="checkbox"/>
3.) <a href="http://www.fifththirdbanks.com">http://www.fifththirdbanks.com</a>	<input type="checkbox"/>		<input type="checkbox"/>
4.) <a href="https://www3.citizensbankonline.com">https://www3.citizensbankonline.com</a>	<input type="checkbox"/>		<input type="checkbox"/>
5.) <a href="http://securityonline-amazon.com">http://securityonline-amazon.com</a>	<input type="checkbox"/>		<input type="checkbox"/>
6.) <a href="http://signin-ebay.com">http://signin-ebay.com</a>	<input type="checkbox"/>		<input type="checkbox"/>

## Email Tip.

Do NOT 'unsubscribe' from any unsolicited e-mail that you may have received. The moment you begin to unsubscribe from the e-mails that you are receiving, you are letting the spammer (the bad guy trying to get your information) know that you are a LIVE person on the other end, and that they have hit on a legitimate e-mail address. Just don't do it! You are making yourself a target!

### The Answers.

#1 - Don't even think about it. Any time you have numbers prior to the web site address, you are looking for trouble. #2 - Don't be fooled by the 'Fidelity' in the title. Usually the appearance of dashes means 'beware.' #3 - The official title of Fifth Third bank isn't 'Banks.' You've got to read the title carefully and sometimes it comes down to one letter! #4 - This can be legitimate! The '3' shouldn't scare you. #5 - Again, anything with a dash in the title should throw up a red flag, and just because it says 'security' in the address doesn't mean it's safe! #6 - Again, the dash in the address throws up a red flag.

# The BACKDOOR ROTH IRA

DO YOU MAKE TOO MUCH MONEY IN ORDER TO CONTRIBUTE TO A ROTH IRA? IF SO, THIS LITTLE TRICK MIGHT BE THE TICKET TO FINALLY BEING ABLE TO MAKE ANNUAL ROTH IRA CONTRIBUTIONS.

**Photo**

Blue Angels in Traverse City  
Ear protection

President Obama defines anyone with an income greater than \$200,000 as 'rich.' For those making substantial earned incomes, they don't have access to the same retirement planning options as everyone else and may actually find themselves limited in what they can do with the retirement plans they do have through their employer. It's unfortunate, but it's also the truth. Believe it or not, those income earners with incomes greater than \$200,000 may find that they can't maximize their 401K plan contributions and do not have access to Roth IRAs on a contributory level. This all creates a bit of an unfair playing field and causes us to come up with other options - some rather creative - in order to keep all the options on the table regardless of the level of your income.

Let's assume that you are still working, and are not allowed to convert to a Roth IRA. This situation can exist for many individuals who are above earned income limitations. It's a bit of a bummer knowing that the Roth IRA is available to the public, but you don't have access personally. Here is a way that you might be able to contribute to a Roth, assuming you meet a few criteria.

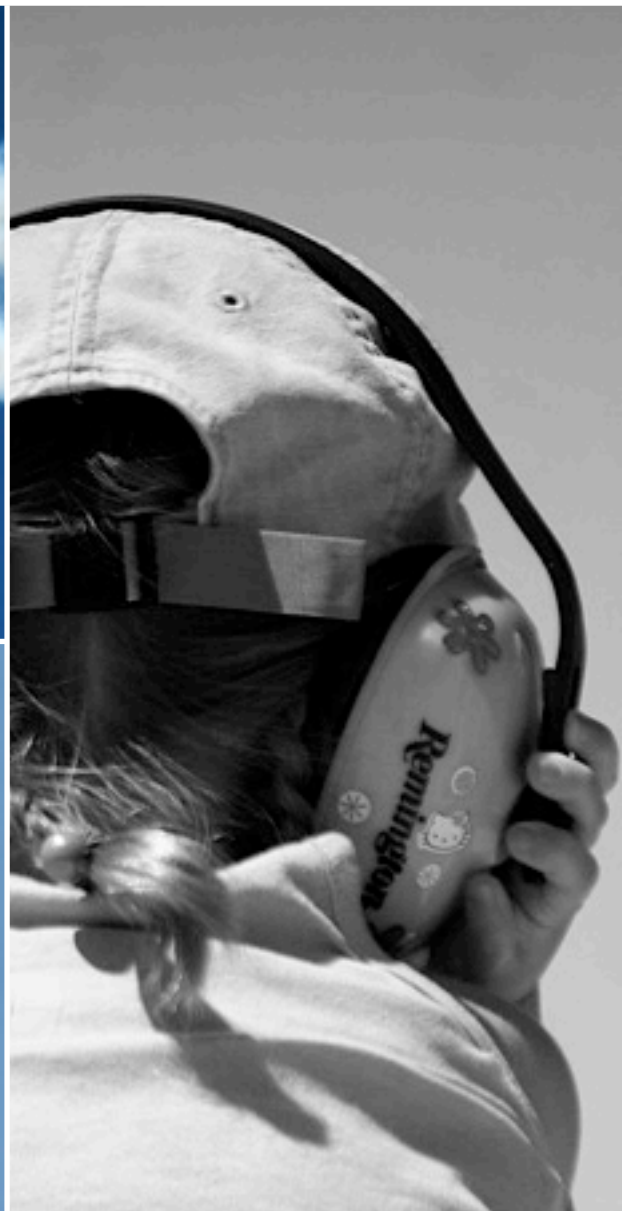
For starters, single taxpayers that earn more than \$122,000 are excluded from being able to contribute to a Roth IRA. Joint taxpayers are saddled with a \$179,000 limitation, but not all is lost in the event you still wanted to contribute to your Roth IRA.

This strategy works best when you *don't* have an existing IRA account, first and foremost. And, in many cases those individuals who are working have preferred to contribute to a 401K as opposed to making non-deductible IRA contributions. For those individuals, we would encourage them to make a 'backdoor' Roth IRA contribution by opening a regular IRA account and then making a 'non-deductible' IRA contribution of, let's say, \$5,000. A non-deductible contribution essentially means that the account owner is contributing after-tax (read: already taxed) funds to their IRA account.

Once the deposit is complete, the account owner then makes a conversion of the full \$5,000 IRA account balance to a new Roth IRA. Since the \$5,000 has already been taxed, there is no tax on the converted amounts. This scenario, essentially, allows a taxpayer that is above the allowable earnings limitations to make Roth IRA contributions. The strange thing for the tax years 2010 and beyond is that the IRS eliminated the income eligibility requirements for *conversions*, but still maintained the eligibility requirements for *contributions*.

Why wouldn't this work with an individual that already has an established IRA account? There is something referred to as the 'pro-rata' rule with respect to IRA distributions that is also applied to IRA to Roth conversions. When you have an IRA to which you have made after-tax contributions, those contributions regardless of the number of IRAs you have, are all considered as one lump sum for taxation purposes upon distribution. As an example, an individual may have made \$5,000 in non-deductible contributions to an already-established IRA account with a current balance of \$100,000. The total of non-deductible contributions is now only \$5,000, with the remaining balance of \$95,000. The pro-rata rule states, in this example, that for every \$1,000 that is withdrawn 5% of the withdrawal (or conversion) will not be taxed, with the remaining 95% taxed as ordinary income. In other words, you do not have the ability to 'target' your after-tax funds within an IRA for either withdrawal or conversion purposes due to the pro-rata rule. It's also why an individual who does not have an existing IRA can use a newly-created IRA as a conduit in efforts to conduct a 'backdoor' Roth IRA contribution. For now, it's a loophole in the IRS code and it doesn't sound like it will be closing any time soon.

Some people might find themselves at the mercy of their 401K plan since they may be regarded as Highly Compensated Employees (HCE's), or their employer might not offer a Roth 401K option. We recognize that this is a bit tricky, but for those looking to bolster retirement savings through the Roth IRA, it may be worth the added effort.



## TUNE IT OUT.

We recognize that you receive our newsletter every quarter, with pretty pictures, and a few good articles every once in a while. But what about those investor 'newsletters' that you receive that tout incredible returns, great hot stock tips, and tremendous opportunities? We mentioned e-mail scams in another article and while this doesn't fall necessarily within the 'scam' category, it's very important to understand the motivation of many writers.

A classic example is referred to as a 'pump and dump' newsletter. This is a newsletter that makes you feel that a \$2 stock is about to make a significant move and that it's in your best interest to get in now. They create a sense of urgency and make you feel that the time is right to invest before the big run-up. It makes sense, sounds good, and from what you are reading the writer has made some great suggestions... right? No.

They are making efforts to get investors to essentially buy the stock, which by the way, trades a limited number of shares and is heavily influenced by moderate-sized investments. New purchasers assist in getting the stock to move higher. Once that's happened, the writers of the newsletter begin to sell their positions essentially leaving the reader holding the bag.

The other type of newsletter is one that creates 'fud.' It doesn't sound pleasant, and it really isn't. It stands for fear, uncertainty and doubt. They want to stir emotions to a point where you invest in their newsletter. You'll routinely find that they declare that oil supplies are about to run out, the government is secretly going to tax your internet e-mails, or that stocks are going to zero. What ever they write, they are really interested in playing on your fear to sell you something of little value. It's also worthwhile examining the fine print. In many instances, the writers of the newsletters are actually paid commissions or a percentage of the 'sales' to a certain fund they are suggesting, or they are also paid as a 'promoter' of the stocks they are pushing.

What's a good rule to follow? Beware of the financial fear mongering and stick with well-known mutual funds and equity positions. Don't believe the hype and take newsletters that give you the 'secret sauce' only when you send in your hard earned money with a grain of salt. They generally aren't worth the paper they are printed on. There are no fast tracks to investing success. We've taken our cues from Warren Buffett when it comes to long-term investing, and I'm quite confident he'll advise that most of those types of newsletters belong in the trash.