The Financial Navigator

Azimuth Financial Planning's Newsletter

Welcome to the first edition of the Financial Navigator, a financial newsletter produced by Bill Simpson of Azimuth Financial Planning. The goal is to provide our clients, friends, and associates with timely news from the field of personal finance, updates on market developments, financial planning tips, and our thoughts on some of the critical financial issues that may be of interest to you. In addition, we will make this an interactive newsletter whereby readers can ask anonymous questions and we will post the answers in this publication, just send questions to info@azimuthplanning.com. We will also point readers to other resources available on the web, or publications that might be helpful, when you consider your own financial plan.

Please feel free to forward this newsletter to any individuals that you may think might be interested. If you don't want to receive future editions, please follow the link at the end of this email to safely unsubscribe, or email us at the above email address. Thanks for taking the time to view this email, and again if you have any questions or topics of interest just shoot us an email.

Sincerely,
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Avoid being 'Madoffed'

It is usually not a good sign when your name becomes a term to describe a crime, or an adverb, but a conscious did not seem to part of Bernie Madoff's makeup as he created the largest Ponzi schemes in history. As you may have heard in the press recently, Bernie proceeded to steal upwards of $50 billion from his investors as he was investing their assets for them. One of the more interesting aspects of this colossal fraud is how so many successful millionaires, and seemingly intelligent investors, were duped into investing with Madoff along with many middle-class clients. Several folks have asked how they can avoid future Ponzi schemes, so we wanted to pass along a few tips. Unfortunately a good portion of Ponzi schemes target the middle to upper middle class, it is not just a crime targeting the ultra rich.

If it sounds too good to be true, it is, period. Simplistic, common sense, but evidently not obvious to all based on the large number of people taken in year after year by various financial scams. Promises of double digit returns with low risk are unrealistic and unattainable, always have been and always will be.

In fact any promise of returns exceeding the general market indices over a long period of time should be a red flag.

The custodian or brokerage firm must not be affiliated with the Advisor. This is a big part of why Bernie Madoff was able to get away with so much. He owned the brokerage firm and the investment advisory business which meant there was no independent source to confirm the status of accounts or trades. Any reputable advisor or brokerage firm uses an independent custodian such as a Charles Schwab, Shareholders Service Group, or Morgan Stanley to retain custody of assets.

Double check your account statements provided by the Advisor. Insist that any statements from the Advisor are also supplemented with statements from a third-party custodian, mutual fund company or brokerage firm and that web access to your account information is available.

Understand as much as you can about the investment strategy and be skeptical of pitches for exotic or obscure investments. Advisors may be reluctant to discuss the details of their proprietary system; however, they should be able to divulge enough information so that you can understand generally how the system works. If you get a pitch for an asset class you're not familiar with, make sure you understand the process by which it achieves returns. Bottom-line, if you don't understand it, you shouldn't be in it. Also, be especially wary if your adviser downplays or denies risk while promoting high returns.

Make sure your adviser is legit. A scary truth is that anyone can call himself or herself a financial planner or adviser, so it pays to check with national organizations that issue credentials such as the National Association of Personal Financial Advisers, the Financial Planning Association, the American Institute of Certified Public Accountants, and the Certified Financial Board of Standards. Each offers a searchable database with contact information for planners in each state. Be sure you are dealing with someone with a legitimate designation such as Certified Financial Analyst (CFA), Certified Financial Planner (CFP), and CPAs with the Personal Financial Specialist (PFS) credentials.

If it is an 'exclusive' investment only open to certain associates of the Advisor, take a pass. Bernie Madoff used the exclusivity of his fund to create buzz and draw people into the scheme. The only special and exclusive investments on Wall Street that are worth the paper the prospectus is written on are not open to you and never will be unless you run the Harvard endowment or the California Public Employees' Retirement System. Exclusivity is not a reason to invest with an Advisor.

An Illustration - Potential Fraud or Not?

Some recent articles in BusinessWeek and the Wall Street Journal concerning a firm called Stanford Financial serve to illustrate some of the above points. Stanford Financial has been known for issuing CDs that pay approximately double the current bank CD rates. The more interesting aspect of this story is that Stanford Financial does not lend funds as most banks do to generate revenue; instead it appears the firm invest deposits in stocks, bonds, precious metals, and these earnings are used to pay the above market CD rates. Even more interesting was that as the markets were getting pummeled in 2008, somehow Stanford

Financial figured out a way to make money when no one else could, and continue to pay out extraordinarily high CD rates. This does not pass the most cursory smell test as it sounds too good to be true, and is unexplainable. Yet the firm appears to have over 30,000 clients, many drawn in by the high CD rates. Whether Stanford Financial turns out to be another fraud, or an investment wonder-firm, will become evident in the near future as the FBI and SEC are now investigating the firm. The moral of the story is basic: walk away if you do not understand an investment and be highly skeptical of excessively high above market returns.

Quote of the day

"As investors, we love to believe in market wizards who hold the secret to making serious money. In fact, there is no such secret, but admitting it is like abandoning a childhood faith." Jane Bryant Quinn, Bloomberg News, on alleged Ponzi schemer Bernie Madoff.

Tax Law Changes for 2008 and 2009

It is tax time again, and a good time to start planning ahead for 2009. Since the IRS has implemented a number of changes to income tax regulations that might affect your 2008 and 2009 tax returns, we thought it would be worthwhile to highlight a few of these changes.

- The standard deduction for a married couple filing jointly is $10,900 for 2008, an increase of $200 from 2007. Single filers may claim $5,450 and heads of household are allowed $8,000.
- In addition, taxpayers who do not itemize their deductions may also claim up to $1,000 ($500 for single filers) for property taxes paid for tax years 2008 and 2009.
- There is a first-time homebuyer (anyone that has not owned a home in last three years) tax credit that may be available to taxpayers who purchase a primary residence between April 8, 2008, and June 30, 2009. The 10 percent credit (up to a maximum of $7,500) is subject to income limitations. However, this isn't a true credit because it must be repaid in the form of additional income taxes over a 15-year period. Leave it to Uncle Sam to call a loan a credit. The good news is that the stimulus package that President Obama will sign this week will make this a true credit and increase the amount to $8,000 for homes purchased after July 1, 2009.
- From 2008 through 2010, the maximum federal tax on long-term capital gains (sale of assets held longer than one year) will be 15 percent. For taxpayers in the lower tax brackets (15 & 10 percent brackets), the tax on both long-term gains and qualified dividends will be zero.
- The contribution limits for traditional and Roth IRAs remains at $5,000 for 2008 and 2009, plus a $1,000 catch-up for those over age 50, but income limitations have been increased.
- The maximum allowable contribution to a company retirement plan (401k, 403b) has increased to $16,500 for 2009, and the catch-up contribution for taxpayers over 50 increased to $5,500 for 2009.
- For those of you over 70.5 you will be interested to know that Required Minimum Distributions (RMD) for IRA owners, plan participants, and beneficiaries were waived for 2009. However, if the taxpayer turned 70.5 in 2008 and waited to take the RMD in 2009, that distribution is still required.
- In past years, many parents attempted to reduce or eliminate their capital gains exposure by shifting assets into the names of their children. This strategy has been crippled by the so-called "kiddie tax." Beginning in 2008, unearned income of more than $1,800 for children under age 19, or dependent full-time students under age 24, will be taxed at their parents' tax rate. As of today the rule is the same for 2009.

- Under current law, up to $500,000 of profit from the sale of a primary residence is excluded from federal taxation ($250,000 for single filers) as long as the home is the taxpayer's primary residence for two of the last five years. New for 2008, a widow/widower has two years from the date of death of the spouse to sell the primary residence in order to claim the full $500,000 exemption. Prior to this change the survivor had one year to sell the residence or else they could only exclude $250,000 of gain.
- For those of you with college bound children there is a potpourri of tax benefits.
  o Prior to 2009 the IRS only allowed one change per year in the investments held in a Section 529 plan (college savings plan), now you are allowed two changes per year.
  o Be sure to check your eligibility for the Hope & Lifetime Learning Credits ($1,800 & $2,000 respectively) as the income phase out limit for married-filing-jointly starts at $96,000.
  o The Student Loan Interest Deduction ($2,500) has been extended for 2008, it phases out for incomes over $115,000 for married couples.
  o US Savings Bond interest can be excluded from income if the bonds are used to pay education costs, again this benefit phases out at incomes over $100,650 for married couples.
- The gift tax exemption has increased to $13,000 for 2009 an increase from the 2008 exemption of $12,000.
- Finally some practical advice for those of you that don't have Roth IRAs. In retirement Roth IRAs will be quite valuable as they grow tax-free, qualified withdrawals are tax-free, and you aren't required to take distributions at age 70.5. Unfortunately if you earn over $100,000 you can't contribute to nor can you convert to a Roth IRA.
  o However, if you earn less than $100,000, now might be an ideal time to convert your regular IRA, rollover IRA, or old 401k to a Roth IRA as your investments are likely down significantly, thus your tax bill will be lower.
  o If you earn over $100,000, there is a one-time opportunity in 2010 to convert to a Roth IRA as the income limit is waived for just that year. In addition, the tax bill can be paid over two years starting in 2011. Great opportunity to create some tax free assets for retirement if you plan ahead and take advantage of the opportunity.

Obviously tax laws have become much more complex in recent years, with no relief in sight; therefore, it would be prudent to consult with competent tax advisors to assist you.

Coming in next issue

Answers to reader questions and some thoughts on recent market turmoil and how one can stay on plan, reduce costs and potentially improve returns.