**November 2004** **Volume 9.4**

# BFAS Money Line

## Movement Finally!

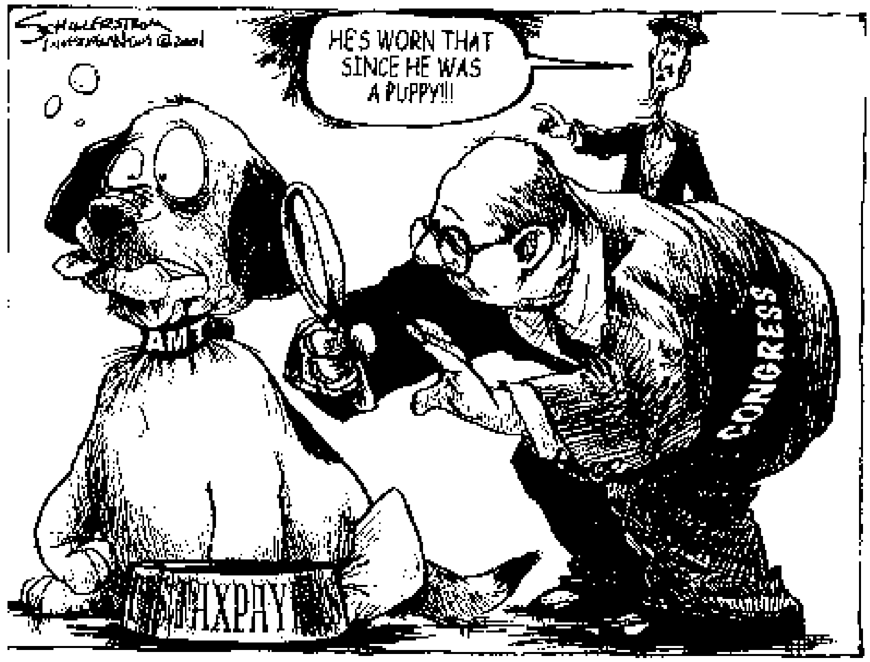
Although stuck in neutral through the presidential run, **the market seems to have reacted favorably** to the resolution of uncertainty. Oil prices have peaked and the fear of a major terrorist attack attempting to disrupt the election has passed. Prospects for a positive return this year seem good right now.

The economy continues to do well although the **weakening dollar will hurt your pocketbook when you take that next trip overseas**. Predictions are that this holiday season will be good for business.

Interest rates continue their upward trend with negative consequences for U. S. bond fund holders but some relief for those with CDs.

Even with the recent run-up, the **S & P 500 is still down over 12% since January 2000**. Prospects for the remainder of this year and next year look good so far. However, overall returns over the next five – ten years are still expected to be modest (5 – 7%).

The table shows what the various markets did in the last year:




| Asset Class | 1 Yr Rtn (10/29/04) |
|---|---|
| S & P 500 | +09.41% |
| NASDAQ | +02.21% |
| Lg Cap Gwth | +03.15% |
| Lg Cap Val | +12.14% |
| Mid Cap Gwth | +05.68% |
| Mid Cap Val | +14.98% |
| Sml Cap Gwth | +04.76% |
| Sml Cap Val | +16.59% |
| Foreign | +16.12% |
| Interm Corp Bds | +4.90% |
| Foreign Bds | + 9.04% |

## Taxes

More-and-more, I am hearing about the coming **Alternative Minimum Tax (AMT) problem**. Created in 1969 after a report that **155 individuals with incomes over $200,000 in 1966 paid no income taxes**, the initial minimum tax rate was 10%. This was such a hot topic that, in 1969, more people wrote to Congress complaining about “tax loopholes” available to high income tax payers than about the Vietnam War!

The AMT has been modified numerous times over the years including 1993 when they set two brackets (26%/28%) and an **exemption amount for Married Filing Jointly (MFJ) of $45,000**.

The looming **AMT problem is due to three issues: the exemption amount was not indexed for inflation, previously "rare" preference items like stock items are now common place, and state and local taxes have risen dramatically**.

In 2003, Congress temporarily increased the **exemption amount to $58,000** for 2003 and 2004. This year, Congress extended the time period to 2005.

**What kind of deductions do you lose** when calculating AMT? You lose your **personal and dependent exemptions, your standard deduction, medical expenses unless over 10% of Adjusted Gross Income, state income taxes, real estate taxes, personal property taxes, home equity loan interest, and miscellaneous deductions** (tax prep, investment expense, business expense).

As an example of how the AMT can hit you, a New Jersey couple making $75,000 with three children and using the standard deduction will be subject to AMT. That is a **far cry from the original intent to tax 155 people who paid no tax!** Unfortunately, any "fix" of the AMT increases the federal deficit since all that AMT tax income from the middle class is figured into future revenues.

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The recently signed **Jobs Creation Act** has two provisions of interest to some of you. The first **allows those who itemize to take a deduction for sales taxes instead of state income taxes**. Thus, those of you living in Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming now have a new deduction available. You **might find it useful in other states if you make an expensive purchase such as a boat or RV.**

The second impact might be on those who **donate cars to charity**. Many took advantage of the opportunity to get rid of their cars, write off the Blue Book value on their taxes and benefit a charity. Unfortunately, these cars were sold at auction and the charity only received a small percentage of the Blue Book value of the car. Congress now says, **starting in 2005, you may only deduct the value the charity receives, not Blue Book value**. I expect all those ads for car donations to disappear soon. You'll have to go back to selling them or trading them in. Bummer!

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This is the time of year to do some tax planning. **If you have stocks or mutual funds with tax losses, consider selling them**. The tax loss will offset any capital gains taxes you might have; and can offset normal income up to $3,000 annually. I know many people want to hold onto stocks/funds with losses until they "get back to what I paid for them". However, they are losing the gains that money would be providing if invested better elsewhere. It's one of the most common investing mistakes.

On the other hand if **you have significant gains in a stock/fund and have a charitable intent, you are much better off contributing the shares** (and saving capital gains taxes) **than giving cash.** The charity can sell the stock/fund, use the cash and pay no taxes. You get the full tax deduction; they get full use of the money.

Another thing to consider is **checking the amount of expected distributions from your funds**. Some funds may not have done well this year, yet may be planning to make sizable distributions in November/December. If the fund is a poor, or even an average performer, **you may choose to sell it before the distribution date and purchase another similar fund (after that fund's distribution date).**

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It appears as though we will re-think our tax system in the near future. I believe we spend an inordinate amount of time and money dealing with our current dysfunctional tax system (with apologies to my CPA and tax attorney friends).

I hope we can have this conversation on taxes without resorting to the "class warfare" rhetoric that is so often associated with tax issues.

# Gifting

For those of you with too much stuff, the Virginia Beach Foundation has developed a new tool for matching charitable organizations with the charitably inclined. Visit www.gift-link.org and you will find over 63 organizations who are looking for specific items like your old copier, or piano, or bed or just writing supplies.

You can search by organization or by items wanted. If you find a match, they will contact you within two days to arrange pickup and provide a receipt.

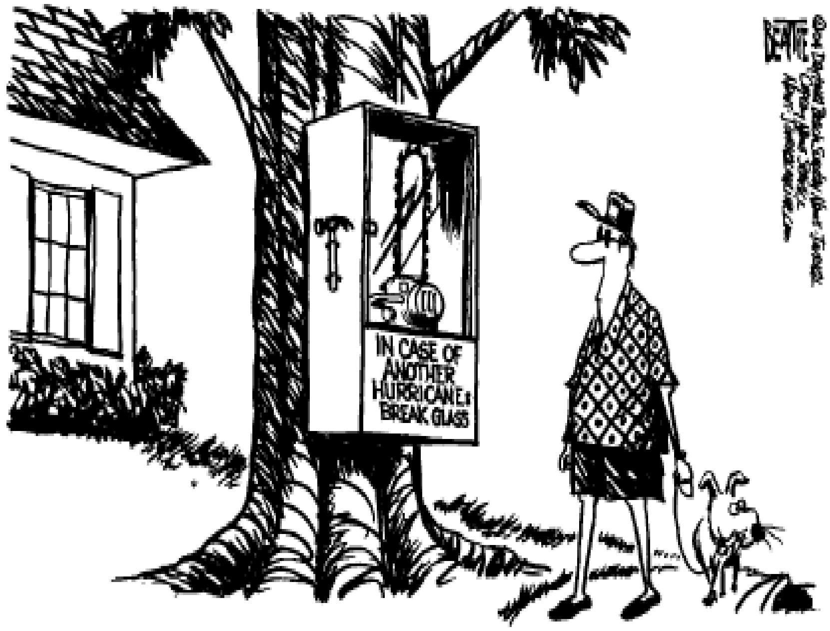
# IRA's

This is the time of year when **those over 70 should be making their IRA (or 401k/403b) distributions**. IRS regulations require minimum distributions from these accounts (but not from Roth IRAs). **Failure to make the minimum distribution results in a 50% penalty**. Thus, if your minimum distribution this year is $4,000 and you don't take it, you must then take out the $4,000 and pay a $2,000 penalty.

If you are still working, you should be thinking about **increasing your IRA contributions for 2005**. The limit for Traditional or Roth IRAs will rise to **$4,000 with an additional $500 for those over age 50.**

These amounts are starting to get large enough that many may choose to contribute only to an IRA instead of to a 401(k). Obviously, if your company provides a match to your 401(k) plan contributions, your 401(k) would be your first choice. If your company does not provide a match, you might consider contributing to a Roth IRA instead.

For those contributing to 401(k) plans, you can contribute $14,000 in 2005 plus $4,000 additional if over 50. With matches and profit sharing, you can put up to $46,000 away.




# Don't Be Fooled

Recent surveys have shown that **most investors are unaware of, and confused about, the unequal protections offered by those who provide fee-based financial advice**. They have high expectations regarding the protection that should be provided by stockbrokers and investment advisors offering fee-based financial advice.

You've all seen the commercials on TV touting the financial advice from Morgan Stanley and others. A survey by Penn, Schoen & Berland Associates, Inc. showed **84% of investors had an expectation that stockbrokers and investment advisors providing fee-based advice should be subject to the same regulation. They are not aware that stockbrokers are not required to act in the investor's best interests in all aspects of the financial relationship, not required to disclose all conflicts of interest prior to providing financial advice, and provide fewer protections to investors**.

Sadly, a majority of investors assume that brokers are in business to provide financial planning services, as opposed to primarily buying and selling investment products. Ever since the media started touting the advantages of working with a Fee-Only investment advisor, the **brokerage industry has tried to assume the cachet of providing financial advice without assuming the fiduciary duties that investment advisors must adhere to by law.**

**A broker is only held to a suitability standard, not the far higher fiduciary standard**. They can, and do, offer financial advice; and some of them do their best to put their clients first. However, when push comes to shove, a broker has a fiduciary duty to his/her firm, not the client. **Investment advisors always have a fiduciary duty to the client**

**and must disclose conflicts of interest.**

**Make sure you know whether or not your advisor is a fiduciary.** If not, caveat emptor!

# Life Ins

Life insurance is one of those things you are sold once and **tend to forget** since premiums are often automatically deducted from your pay or checking account. It is one of the things I routinely analyze to see if the amount of insurance still supports a client's goals.

I frequently see **too much or too little life insurance**. Most common is an **at-home spouse with significant coverage after the children have grown**. Since the potential care-giving liability no longer exists, the at-home spouse has little need for life insurance (unless there is some estate planning or charitable reason for maintaining coverage).

Those who have read this newsletter for some time know I am **not a fan of life insurance as an investment**. In most cases, **term life insurance is an inexpensive way to protect against a financial catastrophe**. Due to greater life spans, term insurance costs have dropped dramatically. In many cases, **a new policy today is cheaper than older policies even though the client is many years older**.

I strongly recommend you give some thought to all of your life insurance coverage, determine if it still serves your long term need for financial protection, and review current options. The money you save could improve your retirement prospects or pay for college educations.

# Medicaid Waivers

**Home and Community-Based Waivers were established by Congress to slow the growth of Medicaid spending for nursing home care and to address criticism of Medicaid's institutional bias**. In 1981, Congress passed legislation allowing states the option of developing Waiver programs as alternative services for people who were eligible for institutional placement.

**Virginia has six Home and Community-Based Waivers including the Elderly and Disabled Waiver and the Developmentally Disabled Waiver.**

All Waivers are not created equal. Some Waivers have a higher cost of living allowance than others. Services vary between Waivers. Some Waivers have restrictive services. For example, personal assistance with the CD-PAS Waiver is limited to 42 hours per week. However, the Elderly and Disabled Waiver has no restriction on personal assistance hours.

Once enrolled in a Waiver program, you will receive a Medicaid card. Medicaid will be your secondary insurance if you already have other health insurance. In some cases, the Department of Medical Assistance Services will reimburse you for some, or all, of your private health insurance premium (for info, call 800-432-5924).

If you were already receiving Medicaid when you qualified for the Waiver, you may have been enrolled in an HMO program**. Once you are enrolled in the Waiver, you will no longer be constrained to using only the providers in the managed care program. All Medicaid providers will now be available for you to choose from.**

All Waiver and other Medicaid services must be provided by companies enrolled as Medicaid providers. The only exception is consumer-directed services. Consumer-directed providers (attendants, companions, respite staff) do not have to be Medicaid providers.

DMAS is considering a new model of service delivery, the Independence Plus Waiver, to increase consumer control of services. For more information about these expanding opportunities for choice and control, contact your Case Manager or the Medicaid Waiver Technical Assistance Center in Norfolk at 461-8007.

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