

# DOUGLASBRADLEY LLC

Personal Financial Advisors

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## DOUGLASBRADLEY'S MONEYWISE

Financial News and Insight from an Independent Advisor

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### Personal Notes

All Work and No Play...

#### From Doug Robinson -

As it is for most people, our December was a busy one. We host Christmas dinner for a big group of family at our house. So between the excitement of the season and prepping the house for company, we get worn down. But once Christmas is over, it's nice to just relax into the end of the year. And on Monday, it was nice to send the kids back to school...

In mid-December, we bought a new Chevy Suburban. It was the first new car purchase for Patty and I since 1995. This truck has more electronics in it than you can imagine and it's been an adjustment from our old Suburban. But so far

### 2010 Savings Limits & The Roth Conversion

*With the start of the new year, we thought we'd again bring you up to speed on retirement plan contribution limits and gift tax exclusion limits.*

- 401K Contribution: Unchanged at \$16,500 (\$22,000 for those 50 and above) (also applies to 403(B) and 457 Plans)
- Roth IRA Contribution: Unchanged at \$5,000 (\$6,000 for those 50 and above) (subject to phase-outs for high-income earners)
- Regular IRA Contribution: Unchanged at \$5,000 (\$6,000 for those 50 and above)
- SIMPLE IRA Contribution: Unchanged at \$11,500 (\$14,000 for those 50 and above)
- SEP IRA Contribution: Unchanged at \$49,000
- Gift Tax Exclusion: Unchanged at \$13,000 (\$26,000 if giving jointly)

For IRA contributions, you will generally have until your 2009 taxes are due to make your desired contributions. For 2009, the date is April 15, 2010.

An important note on **Roth Conversions** for owners of traditional IRAs. The ability to convert a traditional IRA to a Roth IRA to capture the Roth's promise of tax-free distributions has always been limited by income level. That is, until this year. 2010. For 2010 only, savers can convert their Traditional, Rollover, and other applicable IRAs to a Roth regardless of income level. This will likely be attractive for many retirement savers - particularly those with longer time horizons until distributions begin.

With this said, in all of the hoopla about this one-time benefit many of the details and potential complexities are smoothed over or overlooked altogether. If you are considering a conversion, please be advised that it could be costly if not done with full knowledge of the income tax consequences; [we strongly advise you consult with your tax or financial advisor.](#) **If you are a client of DouglasBradley, we will be contacting you proactively to discuss the pros, cons, and tax liability of a Roth conversion for your unique case.**

(For a primer on Roth Conversions, please refer back to a piece Doug wrote in 2007 in anticipation of January, 2010.

[Roth Conversion Discussion](#)

### Clear Sailing Ahead?

*While the mainstream media, government, and financial firms are all cheering the US stock market's 20% return in 2009 and claim normality has returned to the world, all is not what it seems.*

Of course, the 20% gain was achieved in the most dramatic (and traumatic) way which still has investors shell-shocked and fearful. And, not without reason. The 10-year annualized return for the S&P 500 is still negative (i.e., if you invested in the S&P 500 10 years ago you have lost money as of 12/31/09) and the economy is facing a tsunami of home foreclosures,

we've been very happy with it. Patty got a shock when OnStar called the truck while she was driving home one afternoon to set-up the service. She asked the advisor what would happen if she got into an accident while she was talking to them...

**From Brad Loper** - As with most people, the month of December was filled with planning for get-togethers with family and friends for the holidays. Unlike other years, we stayed very busy at DouglasBradley right up to Christmas Eve. That led to a stark contrast when the calls and emails stopped altogether between Christmas and New Years as many clients turned their attention to non-business endeavors. We are looking forward to a fantastic 2010 and all the promise that it brings.

**From Mahesh Desai** - I am slowly recovering from all the snow and am greatly looking forward to reengaging in coaching my children's basketball teams. As you many of know, this is not my favorite time of year so I don't have much to report. It is clear the days are already starting to get a bit longer which is a hopeful sign - daylight savings time cannot come soon enough.

lingering banking and credit problems, and government borrowing to "paper over" the problems until long-term solutions can be found. In our considered opinion, these will almost certainly include higher taxes, lower economic growth, and weaker purchasing power of the US dollar. Welcome to the new normal!

While the above prediction may sound dire (and, we have, on occasion, been accused of walking around with black clouds over our heads), we are optimists; the deep-seeded problems are better understood today than they were one year ago and we are starting to understand the course of action our leaders are taking to solve them (good and bad). To our minds, this is progress.

**Why?** Because as investors, we all have the investment tools readily available to earn profits in the coming years if we are attuned to the markets.

**How?** By accepting the world the way it is and not how we wish it to be.

It can be done. For example, we have been invested in gold since 2001/2002 and it has been a fantastic tool to protect our portfolio values. In fact, gold has now climbed 9 years in a row against the US dollar. It appreciated 23.9% in 2009. While attractive, it was only gold's third best annual gain this past decade (past returns are not a guarantee of future performance). We expect gold to continue to perform well as government actions will, in our opinion, most assuredly lead to rising inflation and a still weaker US dollar.

There is also nothing wrong with maintaining high cash balances until the markets regain their footing and highly-priced stock markets return to attractive long-term prices. We have heard from clients over-and-over about the high percentage of cash currently in our portfolios, but our view is that we can't lose what we don't have exposed to the ups-and-downs of the market. Stocks are priced too high, in our view, so we remain disciplined and adhere to our strongly held convictions. We are aware that many of you (with accounts not held at Fidelity) are actually seeing negative returns on your money market and cash accounts held in 401ks, annuities, education savings account, etc., but this is due to the high fees charged by the providers of those investments.

Despite this, we encourage people to stay strong and incur the minute losses vs. putting your portfolios at risk for the 10-20% stock decline that we feel is coming. As Will Rogers famously said, "I am more concerned with the return **of** my money than the return **on** my money." Hear, hear.

Lastly, we want to bring to your attention a very important announcement that our government conveniently released on Christmas Eve (when, of course, no one was focused on the news). Essentially, the US Federal Reserve and the US Treasury made the decision to bypass Congress and commit the resources of the Federal government to "make good" on the mortgage loan losses that will be incurred by Fannie Mae and Freddie Mac over the next 3 years. Of course, these are the same bad mortgage loans made by reckless lenders and then sold to these government-sponsored agencies. Where is the money coming from you ask? You and me. The Fed has expanded the U.S. monetary base by more than 150% since the beginning of the recession. In other words, they've taken the sum total of the monetary base created in this country's history until 2008 and increased it 1½ times in less than 2 years. The repercussions are going to be felt for a generation or more in our opinion.

Fortunately, as we mentioned above, there are numerous means available to protect our wealth and grow it over the coming years in light of this short-sighted and reckless decision making (our opinion, of course). As it is said, "knowledge is power", and that cannot be truer today for the small investor.

**The DouglasBradley Team**