

KOSS | OLINGER PRIVATE WEALTH MANAGEMENT

B R I E F I N G S

MAY - JUNE 2010

W

elcome to Koss Olinger's Wealth Management Briefings. In each issue, we will try to bring you interesting information, book reviews and other pertinent articles to try to keep you up to date on developments in our Wealth Management strategies that may benefit you and your family.

ADVISOR BOOK CORNER



All I Really Need To Know I Learned In Kindergarten

by Robert Fulghum

Author Robert Fulghum shares with us his feelings that some of the most important things he ever learned in life just happened to be the things he was taught in kindergarten.

Some of the rules Mr. Fulghum talks are: share everything, don't hit people, put things back where you found them, clean up your own mess, don't take things that aren't yours, say you're sorry when you hurt somebody, wash your hands before you eat, flush, warm cookies and milk are good for you, take a nap every afternoon, live a balanced life, learn some and think some and draw and paint and sing and dance and play and work some every day.

The author wonders how our lives would be affected, and what a better place our world would be if everyone were to apply these rules to their adult life. "Think what a better world it would be if we all could have milk and cookies about three o'clock every afternoon and then lay down with our blankies for a nap?"

This book spells out in a simple way what hundreds of other books try to complicate. That life is life, we can't change the past, we can only try harder for the future that we only have one life to live, so try to do it right the first time. However, if you do mess up today, that's okay too, because there is always tomorrow.

This book is an easy read, with only 196 pages you can take in the entire book in just a few short hours. However, we recommend reading the book more than once over a period of time in order to really absorb what this man is saying. Although everything is



BY THE NUMBER\$

- During the 5-year bull market for the S&P 500 that ran from 10/09/02 to 10/09/07, the stock index more than doubled in value but also suffered through 8 tumbles of at least 5%. The greatest fall during the 60-month bull market was a 13.3% drop that took place between 11/06/02 and 3/11/03 (source: BTN Research).
- The bailout for Greece (provided by the European Union and the International Monetary Fund) is worth 110 billion Euros, equal to approximately \$140 billion, or 40% of the \$350 billion Greek economy. If the USA's \$14.6 trillion economy received a 40% bailout, that financial rescue package would be worth \$5.8 trillion. The stimulus approved by Congress in February 2009 was worth \$0.8 trillion (source: BTN Research).
- The US government is expected to borrow \$1.459 trillion for fiscal year 2010 (i.e., the 12 months ending 9/30/10), equal to \$4 billion a day. During fiscal year 2009, the US borrowed a record \$1.786 trillion or \$4.9 billion a day (source: Treasury Department).
- 9,052 golfers submitted applications for the PGA's US Open to be held at Pebble Beach in Northern California next month, including 10-year old Mick Huffman of Louisiana. Amateur golfers must have a handicap index of 1.4 or less to apply (source: PGA).
- 64% of Americans over the age of 55 that were surveyed did not know that bond prices rise when interest rates fall (source: Michigan Retirement Research Center).
- 24% of the college graduates from 2010 anticipate that they will secure a job in their field of education upon graduation, up from 20% a year ago (source: National Association of Colleges and Employers).
- Over the last 20 years (i.e., 12/31/89 to 12/31/09), the value of assets owned by Americans tripled in value to \$68 trillion, but the value of the total liabilities owed by Americans quadrupled in value to \$14 trillion. Thus the net worth of Americans as of 12/31/09 was \$54 trillion (source: Federal Reserve).
- More American workers (17%) identify the rising cost of health care insurance as the economic risk that concerns them the most as they approach their retirement years. Other perils ranked high on the list included inflation fears, the cost of long-term care, the ability to maintain a desired standard of living and failing to leave an inheritance to heirs (source: Society of Actuaries).
- 1 out of every 143 deaths in the USA in calendar year 2008 ultimately resulted in the payment of federal estate taxes by the estate of the decedent (source: Center for Disease Control, Bloomberg BusinessWeek).
- 1 in 4 Americans currently age 65 years old will live to at least age 90 (source: SSA).
- The size of the US economy at the end of 2009 (\$14.3 trillion) was larger than the combined size of the 3 countries ranked 2-3-4 in the world. The collective size of Japan, China and Germany was \$13.2 trillion as of 12/31/09 (source: International Monetary Fund).
- 154.7 million Americans are in the civilian labor force (both those employed and those unemployed but looking for work), equal to 50.0% of our population of 309.2 million citizens (source: DOL, Census Bureau).

Copyright © 2010 Michael A. Higley.
All rights reserved.
Past performance is not indicative of future results.

simple and plainly put, most people cannot accept that life can be this cut-and-dried. So, read it a few times before passing final judgment.

Not originally written as a book, the ideas and stories shared in here were written over the author's life time. Notes and letters addressed to friends and family were later compiled to create this book. Each chapter is its own unique lesson.

The book opens with some words to the reader from the author, included in this note, is something he calls the Storyteller's Creed. I enjoyed this

creed so much and found it to be quite true, so here it is for you to enjoy.

The Storyteller's Creed:
I believe that imagination is stronger than knowledge.
That myth is more potent than history.
That dreams are more powerful than facts.
That hope always triumphs over experience.
That laughter is the only cure for grief.
And I believe that love is stronger than death.

We hope you will enjoy this fun, insightful book.

KOSS | OLINGER PRIVATE WEALTH MANAGEMENT

B R I E F I N G S

MAY - JUNE 2010

Brace Your Assets for a Tax Hike

Higher rates for top earners may be on the way. These strategies can help you get ready.

While it's notoriously difficult to predict Washington's next move, you should probably start preparing yourself for higher taxes. A sweeping series of tax cuts introduced by George W. Bush in 2001 and 2003 are set to expire at the end of this year. It's unclear yet whether Congress plans to renew some of these tax breaks. Yet even if on a few expire, the impact on your portfolio could be significant. To help offset any impending changes



in the code, we believe you should consider implementing several proactive and tax-efficient investment strategies this year.

One very straightforward approach is to consider increasing your municipal bond holdings. With the income tax rate for top earners possibly set to rise to 39.6% from 35%, shielding your investments from federal taxes could become all the more crucial, and municipal bonds are one of the few investment vehicles whose yields are free from federal (and most state) taxes. Yields on 10-year AAA-rated municipal bonds were about 3% in late January. At the current top tax rate, that's roughly the equivalent of a taxable bond yielding 4.5% for someone in the 28% bracket. (Ten-year Treasury bonds, by comparison, offered just above 3.6% in late January.) At higher tax rates, the comparable yield would rise even higher.

There is one exception to the rule. If you're subject to the alternative minimum tax (AMT), you will owe taxes on income from a common type of municipal bond known as a private activity bond, issued

by local governments to fund the construction of projects involving private contractors. "If you're subject to the AMT, private activity bonds may not be attractive," says Vinay Navani, a CPA with Wilkin & Guttenplan, an accounting firm in East Brunswick, New Jersey. Congress has discussed eliminating the AMT or limiting its scope, but it's a major revenue producer, and repeal seems doubtful. Millions more Americans will face the tax this year. Your tax consultant can work with you and your Financial Advisor to help you determine whether you're likely to be one of them, and how to adjust your muni strategy accordingly.

Making the Most of Your Losses

Another set of tax strategies involve dividends and capital gains. Since 2003, most dividends and capital gains have been taxed at a maximum rate of 15%. Unless Congress moves to push back the sunset provision governing this portion of the Bush tax cuts, starting next year dividends will again be taxed as ordinary income (and, potentially, at the higher 39.6% rate), and the tax on capital gains will rise to 20%. Your Financial Advisor can help you decide whether to recalibrate the balance of your portfolio dedicated to dividend-producing stocks. He or she may also want you to take a look at your portfolio's underperforming assets and consider harvesting some capital losses in 2010 that can be used to offset the effect of the possible increase in the tax on capital gains.

Accounting rules have always allowed taxpayers to use capital losses in one investment to offset capital gains in another. If in a given year you have more losses than gains, you can use up to \$3,000 in losses to offset ordinary income. And the losses can be carried forward indefinitely, so any losses booked this year could likely be used to offset taxable capital gains next year (and the year after and the one after that), when it looks as though the tax rate will rise to 20%.

The key is to balance such tax relief with your long-term investment objectives. For example, if you have a depressed stock with a long-term investment horizon, you might sell it, book the loss and then buy it again after 30 days to avoid the "wash sale" rules that would take away

your tax loss. Or if you're nervous about missing a sudden market advance, your Financial Advisor may recommend replacing the stock immediately with a mutual fund or exchange-traded fund in the same industry.

Death and Taxes

You should also be keeping close tabs on potential changes in the estate tax. Until this year, the estate tax, while one of the steepest (45%) in the federal tax code, had relatively narrow applications. Only estates of more than \$3.5 million were subject to the tax, and only those portions of the estate above the \$3.5 million threshold. This year the estate tax was temporarily suspended altogether, but it's scheduled to return in 2011, and legislators are now debating laws that could lower the exemption (some are proposing that it drop to \$1 million) and even apply any changes retroactively for 2010. The uncertainty over how this debate will play out means millions of Americans who never considered estate planning before may need to take precautions or risk having large portions of their estates eaten up by taxes.

The most effective means of protecting assets from the estate tax often involve setting up one of several types of fairly intricate trusts. But you can consider implementing one simple strategy almost immediately: make more annual tax-free gifts of up to \$13,000 (or up to \$26,000 per couple) to your heirs.

To further reduce your estate so that more of your money reaches your heirs, you can underwrite someone's education or medical expenses. For example, you could cover the entire cost of a grandchild's college tuition and effectively transfer a significant portion of your estate without potentially incurring any taxes at all. There are no restrictions on the amount you can pay; the only qualifier is that the payment must be made directly to the educational institution or health care provider.

In our estimation, signs point to this being one of the last ApriIs with several tax rates and exemptions you've no doubt grown used to. Your Financial Advisor can work with you and your tax planner on these tax-consideration strategies and others to help transition to the ApriIs ahead with as little drain on your assets and investment performance as possible.

From Financial Planning Daily



BILL KOSS
CLU, CHFC, MSFS



BILL OLINGER
CLU, CHFC, MSFS



WILL OLINGER
CIMA®



KIRK KLEIN
CFP®, CHFC



WJ ROSSI
CFP®, CHFC



C. BRENT BOYD
CFP®



BRIAN WATSON
CFP®

THE
KOSS
OLINGER
TEAM

*A recommendation from a client is
a tremendous compliment and a huge
responsibility and can never be taken lightly.*

-Anonymous

KOSS OLINGER
2700-A NW 43RD STREET
GAINESVILLE, FL 32606
OFFICE: (352) 373-3337
TOLL FREE: (800) 373-3302
FAX: (352) 373-1864
WWW.KOSS-OLINGER.COM



A PUBLICATION OF KOSS•OLINGER

Securities Offered Through ValMark Securities, Inc. Member FINRA/SIPC. ValMark and Koss Olinger are separate entities. Advisory Services offered through Koss-Olinger Consulting, LLC., An SEC Registered Investment Advisor.