

ALPINE PERSPECTIVES

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ALPINE FINANCIAL ADVISERS, LLC

Obama's Proposed Budget Will Increase Taxes on The Middle Class

The headlines from the mainstream media on Monday generally read, "**Wealthy to Face Tax Increase**", after the White House released its \$3.8 trillion budget for the coming 2011 fiscal year to Congress. The budget calls for a \$1 trillion increase over the next ten years on individuals with earnings of \$250,000 or more per year. But what you probably have not been made aware of is that middle-class American families will incur numerous backdoor tax increases as well. What will be targeted are the tax provisions enacted under the Bush administration's Economic Growth and Tax Relief Reconciliation Act of 2001. This act lowered individual tax rates, reduced taxes on capital gains and dividends, and scaled back estate taxes. If these provisions are allowed to expire on 12/31/2010, the top tier income tax rate will jump to 39.6% from 35%, and lower tax rates will rise as well: the 25% bracket will revert back to 28%; the 28% bracket will increase to 31%; and the 33% bracket will increase to 36%. The special 10% bracket will be eliminated. This is an average increase in marginal rates of 11.25% for all brackets, excluding the 10% bracket. Investors will also see a dramatic increase with the tax on dividends vaulting from the current 15% to 39.6%, and the capital gains tax rising to 20% from 15%. The estate tax is eliminated this year...but it will return in 2011....though there has been talk of reinstating the death tax sooner. Millions of middle class taxpayers may be facing higher income taxes in 2010 as Congress has failed to extend the AMT "patch" that expired on January 1, that limits the impact of AMT. Lawmakers are reluctant to eliminate it

as it has become a key source of federal revenues. Without the "patch" this year, the AMT could have an impact on as many as 25 million taxpayers with incomes as low as \$33,750 for single filers, and \$45,000 for joint filers. Middle class Americans will find fewer tax breaks in 2010 if other provisions expire such as:

- Taxpayers who itemize will lose the option to deduct state sales tax payments instead of state and local income taxes
- The \$250 teacher tax credit for classroom supplies
- The deduction for up to \$4,000 of college tuition and expenses
- Individuals will no longer be able to increase their standard deduction by up to \$1,000 for property taxes paid
- The first \$2,400 of unemployment benefits are taxable, in 2009 this amount was tax free

Call and ask me about tax efficiency to help preserve your hard earned income.

The Number One Financial Concern For Americans

At the end of 2009, the U.S. Center for Retirement Research released a report that 51% of Americans are at risk of reduced living standards in retirement – including 42% of those in high income households. And if the cost of health care and long-term care were included, these numbers would be even higher. And recently, Larry Porcelli, the head of the private client group for US fund giant Black Rock said that their research shows that 70% of Americans are willing to move their accounts if another firm or advisor offered expertise on constructing portfolios to avoid run-

ning out of money. We are all guilty of procrastination, but when it comes to knowing whether you will have the necessary resources to live the type of lifestyle you desire in retirement, why risk being embarrassed and find out the hard way? Many people will attempt to solve this important riddle by putting pencil to paper and assume they have all of the variables and scenarios covered and generally assume things will take care of themselves. You need to honestly ask yourself the question "**Do I have a written plan that forecasts income and expenses in retirement to ensure I will not run out of money?**" If you can say this with a high degree of confidence, then you only need to account for the myriad of changes that could occur and update your financial plan accordingly. If you are like many Americans you will just wing it and hope you have all of the bases covered when the time comes. **Not All Advisers Are Financial Planners!** Go ahead and ask your adviser how he/she would determine how much personal liability insurance coverage you should have? Ask he/she how they would allocate the stepped up cost basis on assets inherited in 2010? Or ask him or her what the advantages are of generation skipping 529 college savings plans are? The benefits of working with a financial planning professional are that they look at your investments as only a spoke in the wheel of providing you with guidance in achieving your retirement and other lifestyle and financial goals. You can't really create an accurate investment plan without financial planning, even at a limited level. And if that's true of an investment plan, that's doubly true of a retirement plan. The reason is simple – the essence of a financial plan is that it clarifies options and enables intelligent tradeoffs between goals. **Do you have a plan?**

Alternative Investments: What Role Should They Play In Your Portfolio?

The general definition of alternative investments is almost anything that is not mainstream stocks or bonds. This asset class can include real estate, commodities, currencies, Treasury Inflation-Protected Securities (TIPS), and convertible bonds. Alternatives can also describe certain investment strategies such as long-short, absolute return, market-neutral, short-selling, leveraged long or leveraged short strategies. The objective of alternatives in a traditional portfolio is to incorporate a low correlation addition to other assets in the portfolio, and provide a positive risk-adjusted return over time. Below are some of the asset classes and strategies that fall into the alternative investment category.

1. **Hedged Equity.** These strategies involve traditional stocks but the market risk is offset by shorting stocks, and by buying or writing options. The goal is to provide a return that participates in the upside to a degree but much less of the decline in the overall market.
2. **Market neutral.** This strategy also is based on securities in the stock and bond markets, but the objective is to hedge away nearly all of the market risk. Convertible arbitrage and merger arbitrage are popular strategies as their success is not directly dependent on the direction of the markets. These strategies typically do not provide outsized returns, but are employed for downside protection.
3. **Commodities.** Pure commodity exposure is accessible only through the futures market (futures are based on a contractual agreement to buy or sell an investment in the future). Commodities can include precious metals, livestock, food stock, energy, and timber. Long/short strategies can have low cor-

relation to traditional markets. Secondary commodity exposure can be accomplished by owning the stock of companies involved in the extraction or processing business. However, business, management, and other factors dilute the pure exposure attained in the commodities futures market.

4. **Currencies.** Currency strategies are also executed through the futures markets and involve going long currencies thought to increase, and shorting currencies believed to decrease relative to other currencies.

Long term investors seeking to lower portfolio risk by reducing volatility, (the dispersion of returns) would typically commit somewhere up to 10 percent of their portfolio to alternatives. Once again, the benefit is that these strategies over the long term **zig** when traditional investments in stocks and bonds **zag**. My objective for clients participation in alternative investments is:

- Understand the strategy.
- Verify that the strategy has a history showing its ability to execute successfully.
- Select a money manager with a reasonable fee structure and a demonstrable track record.
- Make sure the strategy meets your needs as a client.

Should You invest In Emerging Markets?

Yes. Again, the investment in this asset class must meet the individuals specific goals and needs. Emerging stock and bond markets represent a small, but dynamic, set of investment opportunities. The risks of investing in emerging markets are typically as dramatic as these markets' potentially high rewards. Annual gains or losses of more than 80% are not unusual. Both the long-term risks and the long-term rewards of investing in emerging markets are strongly linked to the ability of these markets to de-

velop economically. History shows that some once emerging economies such as Japan and the United States have been successful, while others such as Argentina and Brazil have been less successful. A complex set of factors determines which emerging markets will succeed. It is impossible to predict which countries will emerge, rewarding investors for the risks they assume. Thus, investors should diversify their exposure among emerging markets. The appropriate allocation to emerging markets or any one investor depends in part on the investor's comfort with short-term divergences from reasonable long-term expectations. Investors in emerging markets will incur some different risks, but will also contend with similar risks of investing in developed markets. However these risks are magnified due to the "emerging" nature of the economic, political, and legal environment. Here are some of the risks investors will deal with:

Political risks. Factors such as external conflicts, coups, and racial and national tensions create political instability in a country. Political instability can significantly influence a firm's ability to generate earnings and stock market returns.

Economic risks. Economic policies and reforms may fail, creating a challenging macroeconomic environment for companies.

Regulatory and operational environment. The quality of market regulation, corporate governance, transparency, and accounting standards is often below that of developed markets. These factors make it harder to appropriately price securities, increasing the risk of mispricing.

Given the complexity and resources necessary to evaluate opportunities in emerging markets, I deem it appropriate to place fund with money managers. I employ a rigorous factor analysis when screening these managers, and frequently review their performance. Long term investment horizons are necessary given the volatility of returns.