

ALPINE PERSPECTIVES

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ALPINE FINANCIAL ADVISERS, LLC

Seven Questions to Ask Your CPA

As we head into the heart of the 2009 tax filing season it is a good time to ask your CPA about your 2010 tax picture. This will aid in managing your personal finances throughout the year. The following are a list of questions you may wish to ask your accountant.

1. Will I be subject to the Alternative Minimum Tax (AMT)? If you were subject to the AMT in 2009 it is highly likely you will be subject to it in 2010. Because Congress has not passed the AMT "patch" the exemption amounts may revert to 1986 income levels of levels—\$33,750 for single taxpayers and \$45,000 for joint filers (compared with 2009 exemption amounts of \$46,700 and \$70,950, respectively)—some clients who were not subject to the AMT for 2009 may be subject to it in 2010. If it is unclear as to whether you will be subject to AMT, you should ask your tax adviser how to deal with this uncertainty when making planning and investment decisions for 2010.

2. What will my tax bracket be in 2010? We can help you determine what your marginal tax rate is. This will help calculate the tax impact of various planning and investment strategies. However, because of the uncertainties your situation may be different this year. The taxable income you report on your 2010 may result in a different bracket that what was true for 2009. A few minutes spent asking your CPA of your 2010 tax picture will provide you with a more accurate estimate for the current year.

3. Can you help me estimate my income for 2010? Given that income can be more than just wages (bonuses, investment income, the taxable portion of Social

Security benefits, alimony, gambling winnings, and more), query your account to obtain a clearer idea. It is also important to estimate adjusted gross income, modification to adjusted gross income, and taxable income. These will help determine if a you can take actions such as contribute to a Roth IRA or a deductible IRA. An accurate estimate of 2010 income will enable you to make these contributions early in the year, rather than waiting until your 2010 taxes are prepared.

4. Do I have any remaining loss carry forwards for 2010? Knowing the answers to this question will help in ongoing tax loss harvesting.

5. If I were to effect a Roth conversion in 2010 what would my tax liability be? Given that Roth conversions initiate a taxable event, it is appropriate to have an accurate assessment of your most current tax rate.

6. Do you have any recommendations for reducing my taxes for 2010 and beyond? Any strategy that is primarily designed to reduce taxes should have the CPA's blessing, and the tax preparation appointment is the perfect time to get it.

7. Is there anything my financial planner can do to help my situation? Coordination between you and all of your advisers will benefit in helping you achieve your financial goals.

Many Workers Will Out Live Their Retirement Assets

When it comes to retirement, many baby boomers are in a state of denial about how long their long-term savings will last. The recent economic downturn caused pre-retirees, ages 50-59 to consider working years longer than they had hoped, their current rate of

savings is unlikely to fund the retirement lifestyles they expect, according to the fifth annual Retirement Fitness Survey from Wells Fargo & Company. Only 23 percent of pre-retirees are saving more for retirement than they were a year ago, the survey found. Fifty-seven percent are saving the same amount, and 20 percent are now saving less. Sixty-seven percent say their expectations for retirement have changed in the past year, and 56 percent now expect to work longer by an average of three additional years. Overall, the financial positions and savings habits of this group are insufficient to last for their expected 20-plus years of retirement. Pre-retirees clearly haven't assessed how long their savings will last in retirement. They expect to live nearly 21 years in retirement, but plan on spending nearly 10 percent of their savings every year in retirement. The industry recommendation is to withdraw no more than 4 percent annually. People have been overly optimistic about their investment returns. When they started saving (typically in their 30s), both pre-retirees and retirees expected the value of their investments to grow by 8.7 percent each year, on average. In fact, the compound annual growth rate of the S&P 500 from 1958 through 2008 was 6.6 percent. Despite their inadequate savings, nearly two-thirds lack any formal plans for retirement savings or spending strategies. Only 35 percent of the pre-retirees have a written plan for retirement, and of this group, only 52 percent say they updated it in the past year during the market downturn. Less than half (40 percent) wish they had been more proactive about educating themselves about retirement preparation. Only 34 percent wish they had cut back more on their previous lifestyle and saved more for retirement.

Tax Treatment of Investing In Gold

The **yellow metal** has been on a roll, and some believe that the appreciation in the price of gold is just getting started. I do recommend that gold and other commodities qualify as satellite holdings in a well diversified investment portfolio. What can be tricky is, depending on the form in which you own gold may have dramatic personal tax ramifications. According to the IRS, gold is a collectible when it is held in the form of coins or bullion. Thus the tax treatment of gains and losses on physical gold is different of the tax treatment of paper assets such as stocks and bonds. Long term capital gains on gold are currently taxed at 28%, which is nearly double the 15% long term capital gains for paper assets. One popular method of investing in gold is through the an exchange traded fund (ETF), SPDR Gold Shares. The misconception is that most people believe that their gains or losses are afforded the same favorable treatment as other "funds." Unfortunately this is not the case because this gold ETF is set up as a grantor trust and not a mutual fund. A grantor trust is ignored for tax purposes so that the investor is treated as owning a pro-rata share of the underlying holding (gold bullion) and not the shares of the fund. Interestingly if you happen to be in the 25% tax bracket (married filing jointly with taxable income below \$137,050) it is better to realize short term gains versus long term gains. To get around this tax issue you could invest in gold futures as all profits are taxed as being 60% long term and 40% short term. This blend creates an effective tax rate of 23%. Still another option is to own the equity shares either outright, or in a mutual fund of companies that are in the mining or processing of gold. In this case you receive the favorable tax treatment afforded to paper financial assets. The downside to this exposure to gold is the business or management risk that you assume when owning shares in a company.

Investing From The "Big Picture" Perspective

You are a homeowner, real estate agent, a construction business owner, a pharmaceutical representative, an artificial intelligence engineer, or the owner of a small financial software company...and you have thoughtfully allocated your investment portfolio in what you believe to be a prudently balanced manner. But have you really? Have you looked at the "Big Picture" of your exposure to all asset classes in your personal as well as investment portfolio? Here is where many do-it-yourselfers and some advisers make dramatic over allocation mistakes. A good example of over exposure to an asset class is owning the stock of the company you work for through an ESOP or other incentive plan, and not factoring this allocation into your overall strategy. Even though you "know" your company and the industry, there are too many factors out of your control for you to be able to prudently manage the risk. Another good example is if you own residential real estate and you have invested in companies that have a significant portion of their business tied to the home building industry, you have over exposed yourself to too much industry specific risk. This particular problem is exacerbated when investing in assets that are illiquid such as land or improved real estate, or restricted company stock. This ingrained or inherent over allocation bias must be fully accounted for when designing or implementing your investment strategy. The idea is to diversify your risk across several asset classes that will not move in the same direction in value given changes in the economic landscape. It is also important that you disclose all of your assets to your adviser so that he or she can properly factor these into your portfolio construction. If you use multiple advisers to invest your assets the burden falls upon you, the client, to make full disclosure to all advisers if you shift your portfolio strategy with one adviser.

Is The U.S. On Its Own Path To A "Greek Tragedy"?

The economic crisis in Greece should serve as a warning to Americans and its leaders. The continued path of over-spending, under-saving, and over-borrowing will eventually result in very painful economic consequences. While Germany and France have sated that they are willing to help Greece deal with its current credit crisis, Greece will cede some sovereign autonomy through the support of these other Euro zone countries. What is in store for states such as California, New York, and New Jersey which face seemingly intractable budget problems? California bonds are rated BBB by Fitch Ratings, Ltd., one step above junk bonds. Each state faces, in effect its own Greek crisis. In many states, government spending has risen much faster than inflation, population growth and tax revenue. An many voters are resisting cuts in spending and increases in taxes. Given the already high taxes in these bloated deficit challenged states, they are among the top ten in the nation, raising taxes may not be an option.

Likewise the federal government has recently seen a parabolic growth in deficit spending due to the financial crisis, recession, and stimulus outlays. The federal debt including Social Security and Medicare now stands at more than \$12 trillion. When other unfunded "off balance sheet" items (e.g. housing mortgage entities Fannie Mae/Freddie Mac) are added in the debt burden increases to somewhere between \$50 trillion and \$100 trillion. Most economists believe that a federal deficit of 3% of GDP is bearable because of the long term natural growth of the economy. But President Obama's budget forecasts deficits of 10.6% this year, falling to 3.6% by the middle of the decade, and rising to 4.2% by 2020. Corrective action will require massive cuts in entitlement programs and tax increases. There will be no easy choices or solutions.