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"Real People provide Real Service"

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Winter in the Midwest.....

We are looking at the first snows of the year across the Midwest and West. The year has been both a bane and a blessing to all. Unemployment is up to 10%, Banks haven't recovered enough profits to make them lenders again, small businesses are living off their credit cards due to lack of SBA availability. Loan Modification programs have done 650,000 modifications to date on over 20,000,000 mortgages. Wall Street recovered instantly from the Recession, while Main Street remains deserted.

For icing on the cake of recession, banks and credit card companies threw out any rule book and raised rates on everyone. Overdraft fees, over limit fees, inactivity fees have gone through the roof. It appears bank are rationalizing that they need the funds, not to lend, but to retain the same talent that created the recession. Hmmm, wasn't there a biblical story on moneychangers and the temple of capitalism?

Active ETFs need time to catch on, some say

Transparency, structural limitations are roadblocks

Actively managed exchange traded funds are finally starting to trickle into the market.

But for the trickle to become a flood, active ETFs will have to overcome a number of obstacles, not the least of which is the establishment of desirable performance.

"Would people want active management that comes with the tax advantages, transparency and liquidity of an ETF?" asked Scott Burns, the director of ETF analysis at Morningstar Inc. of Chicago and editor of Morningstar ETFInvestor, a monthly newsletter. "The answer is yes, but if it turns into a trade-off for returns, the answer is no."

It is a challenge, but some asset managers think that they are up to it.

The Grail American Beacon Large Cap Value ETF (GVT), from Grail Advisors LLC of San Francisco, which began trading

May 4, allows portfolio managers unrestricted trading.

The ETF is sub advised by Fort Worth, Texas-based American Beacon Advisors Inc., a manager of managers.

Assets in the Grail ETF will be allocated among three investment managers: Brandywine Global Investment Management LLC of Philadelphia, Hotchkis and Wiley Capital Management LLC of Los Angeles and Metropolitan West Capital Management LLC of Newport Beach, Calif.

The Grail ETF follows the introduction Nov.20 of the PowerShares Active U.S. Real Estate Fund (PSR), from Invesco PowerShares Capital Management LLC of Wheaton, Ill., and the launch in April 2008 of the first actively managed equity ETFs, also from InvescoPowerShares.

Invesco PowerShares manages five actively managed ETFs.

Invesco PowerShares, Grail and other asset managers have plans on the drawing board to launch more actively managed ETFs.

Financial advisers said that they welcome such ETFs but predict it will take some time for them to catch on.

“When it comes to actively managed ETFs, you really have to be patient.” said Jim Lowell, Partner and chief investment strategist of Adviser Investment Management Inc. of Newton, Mass., which manages \$1.2 billion.

Like conventional mutual funds, investors need to let active ETFs build a track record, he said. I may take as long as three years or as little as six months if the manager is already well-known, Mr. Lowell said.

Performance, however, is just part of the equation.

An actively managed ETF has to offer something new, said Adam Bold, chief executive of the Mutual Fund Store, an Overland, Kan. Based RIA with about \$3.5 billion of client assets.

“I would buy actively managed ETFs for my clients if they offered something I couldn't find in regular, open-end mutual funds,” he said.

There has to be something of a stumbling block for early actively managed ETFs as a result of issues stemming from transparency.

The Securities and Exchange Commission insists that ETFs provide investors with transparency equivalent to that of stocks.

Although that isn't an issue for ETFs that follow an index, active managers are leery of telegraphing their moves out of fear that arbitrageurs will jump in front of their trades and wreak havoc on stocks in which they are interested.

So, far, the solution has been to limit actively managed ETFs to very liquid fixed-income and liquid large-cap-equity markets.

It is a solution that hasn't played well with investors.

Despite solid performance, the three actively managed equity ETFs from InvescoPowerShares have just \$ 15 million in assets, according to Moringstar.

“There are limits real tactical, structural limits to how many active styles can be done in at ETF,” Mr. Burns said. “It's hard to do a small-cap actively managed ETF and virtually impossible to do a micro-cap ETF.”

That may be true, but it won't stop asset managers from coming out with actively managed ETFs, said Sean O'Hara, president of Paoli, Pa.-based RevenueShares Investor Service LLC.

Although not a fan of active management, O'Hara, whose firm launched its first ETFs last year, said there is so much “upside” to the ETF business it is growing faster than the mutual fund business that is bound to attract asset managers looking to launch products.

Banks Bite Bullet on Loans

Lenders Start to Write Off Some Principal in Modifying Terms for Troubled Mortgages

Banks and loan investors are starting to bite the bullet and lower the principal due on home mortgages for some struggling borrowers, a new report from bank regulators shows.

That's good news for some homeowners, but may portend more write-offs over the next few years for bank and other lenders now wading through hundreds of thousands of applications for loan modifications. The tradeoff for banks is that by taking the hit now they can boost their chances of being repaid.

Banks and loan servicers modify loans primarily by reducing interest rates or extending the term of the mortgage. These methods can temporarily help borrowers struggling to make payment without requiring lenders to lower the owed. Now, in a small but growing number of cases, banks are going further and writing off some of the loan altogether.

Part of this is due to prodding from the Obama administration, which has made saving homeowners from foreclosure a cornerstone of its economic-rescue strategy. The administration in March announced plans aimed at helping as many as nine million households struggling with mortgage debt through loan modifications or refinancings. The plans include financial incentives for mortgage-servicing firms that modify loans.

At the same time, banks now have more flexibility to modify loans because of their success in stabilizing their balance sheets and, in some cases, raising fresh capital. Banks can afford "to take the pain up front," said Kevin Fitzsimmons an analyst at Sandler O'Neill & Partners LP in New York. "If they want a legitimate chance of salvaging something out of the loans, they are better off taking the loss now.

The portion of loan modification in the second quarter that involved reducing the principal jumped to 10% from 3.1% in the first quarter, according to the report released Wednesday by the Office of the Comptroller of the Currency, or OCC, which regulates national banks.

Alejandro Estrella, a small carrier in Riverside, Calif., said he was surprised when his lender, the Wachovia unit of Wells Fargo & Co., agreed recently to reduce the principal he owed on two mortgages on his home by 18% to about \$237,000. That will lower his monthly payments to less than \$1,500 from about \$2,100. "I wasn't expecting it," said Mr. Estrella, who started out seeking just a reduction in his interest rate and got counseling from Springboard Nonprofit Consumer Credit Management.

Principal reductions are still the exception, though. Tom Kelly, a spokesman for J.P. Morgan Chase & Co., said the lender first tries to make loans affordable by lowering the interest rate for borrowers who qualify for modifications. If that doesn't result in a low enough payment, the bank may extend the term of the loan or defer repayments on part of the principal. That deferred principal would come due if the home is sold or refinanced.

But banks and loan servicers are recognizing that modifications don't always work if the borrowers aren't given a big enough break. Of loans modified in this year's first quarter, 28% were in default again within three months, the OCC said. Among those modified in last year's second quarter, 56% were in default again a year later.

Although the Obama administration programs for averting foreclosures got off to a slow start, they are starting to result in larger numbers of modified loans. The OCC report tallied 439,574 agreements to help troubled borrowers, including loan modifications and other repayment plans, in the second quarter. That was up 75% from a year earlier. Of that total, 142,362 of the agreements were classified as loan modifications, and 10% of those involved reducing the principal.

Beyond Housing, a nonprofit in St. Louis that counsels distressed borrowers, recently won a principal reduction for Evone Lester, a prison employee who had fallen behind on her payments and faced foreclosure.

The loan was being serviced by Wells Fargo & Co. but owned by an investor, Beyond Housing said. The investor agree to reduce the loan balance to about \$48,000 from \$72,000, said Chris Krehmeyer, chief executive of Beyond Housing, That helped cut the monthly payment to \$761 from \$1039.

In spite of these efforts, foreclosures continue to rise. In a report last week, Amherst Securities Group, a New York research firm, estimated that about seven million home representing 12% of U.S. homes with mortgages will end up changing hands in foreclosures or related transaction over the next few years. The company said it doesn't expect that loan modification efforts will ease the problem significantly, largely because so many people default again.

The OCC isn't requiring bank to reduce principal, said Joseph Evers, a deputy controller at the regulatory agency. But he said, the OCC has told banks they need to make sure modifications are "more sustainable," giving borrowers a real chance to keep up with the new payments.

Separately, the Federal Reserve Board Wednesday released a report on mortgage data from more than 8,000 lenders under the Home Mortgage Disclosure Act, known as HMDA. The report showed that blacks and Hispanic whites were far more likely to be denied last year for refinancing conventional mortgage, those that aren't insured by the federal government.

The Monthly Index Report for November 2009

Index	Nov-09	QTD	YTD	Description
S&P 500 Index*	5.7%	3.6%	21.3%	Large-cap stocks
DJIA*	6.5%	6.5%	17.9%	Large-cap stocks
Nasdaq Comp.*	4.9%	1.0%	36.0%	Large-cap tech stocks
Russell 1000 Growth	6.1%	4.7%	33.1%	Large-cap growth stocks
Russell 1000 Value	5.6%	2.4%	17.6%	Large-cap value stocks
Russell 2000 Growth	3.1%	-4.1%	23.9%	Small-cap growth stocks
Russell 2000 Value	3.2%	-3.7%	12.1%	Small-cap value stocks
EAFE	2.0%	0.8%	30.6%	Europe, Australasia & Far East Index
Lehman Aggregate	1.3%	1.8%	7.6%	U.S. Government Bonds
Lehman High Yield	1.0%	2.8%	53.2%	High Yield Corporate Bonds
Calyon Financial Barclay Index**	2.4%	1.3%	-1.4%	Managed Futures
3-mo. Treasury Bill***	0.0%	0.0%	0.3%	

All returns are estimates as of November 30, 2009. *Return numbers do not include dividends.
 ** Returns are estimates as of November 27, 2009.

How to Navigate Medicare if You're 65 and Working

I am currently employed full time and have been with the same employer for more than 10 years. My employer pays 100% of my health coverage. I will be 65 in September and know that I must make a decision regarding Medicare

as soon as possible. But I don't know if I have to sign up. I have no plans to retire. Do I sign up for Part A or Part B? I don't know how that interacts with my present health coverage.

I am continuing to work and have a health savings account. I will turn 65 in September. I am told I will incur a penalty if I don't enroll in Medicare Part A. But if I do enroll in Part A, I can no longer contribute to my HAS. Do you know an answer to this?

As long as you are still insured through your job or your spouse's, there is no penalty for delaying Medicare coverage when you become eligible at age 65. But you need to make sure your coverage will stay the same when you turn 65.

Medicare has four parts: Part A, which mainly covers hospital care; Part B, covering outpatient care including doctor visits; Part D for drug coverage; and supplemental policies that generally pay uncovered bills.

There isn't a charge for signing up for Part A, as long as you have worked for 10 years in Medicare-coverage employment, so in most cases you should take it.

If you enroll in Social Security, you generally are enrolled in Part A automatically when you turn 65. But if you aren't collecting Social Security yet, you need to sign up for Medicare Part A at some point in the window of three months before your 65th birthday through the three months following your birthday. There is enrollment information at socialsecurity.gov. If you sign up for Social Security, you should get a copy of the Medicare handbook, "Medicare & You," in the mail shortly before you turn 65. If you don't sign up for Social Security, you can download the handbook from medicare.gov or request it by calling 800-633-4227.

To decide whether to take Part B, which has a monthly premium of at least \$110.00 this year, you need to find out how your employer-sponsored coverage works with Medicare. If your employer insurance would become secondary to Medicare, you generally should take Parts A and B. If your employer coverage remains primary, you generally wouldn't need Part B. There isn't a penalty for waiting to sign up for Part B until your employer-sponsored insurance ends. (There is a special enrollment period in that case, described in the Medicare handbook.)

As for part D, which is drug coverage, you need to find out from your employer whether your coverage is what Medicare considers "creditable," (Such coverage, according to Medicare, "is expected to pay, on average, at least as much as Medicare's standard prescription drug coverage.") If your coverage is creditable, there isn't a penalty for waiting to sign up until after your coverage ends (as long as you meet Medicare's deadlines for doing so.

Make sure your employer will let you keep your plan. Group health plans of employers with at least 20 workers have to do so, Ms. Laing says.

On the banking front.....Lonnie, check out West Towns Savings in North Riverside. Bank rates on 90 day certificate of deposits, 2% for \$10,000 or more.

The Lowdown on Home-Buyer Tax Credits

Last week, President Barack Obama signed a law that extends through next spring a temporary tax credit of up to \$8,000 for some first-time home buyers, which was due to expire Nov 30. The law also adds a new tax credit up to \$6,500 for certain repeat home buyers. The package, which the government estimates will cost a total of \$11 billions, is intended to help spur housing sales, a critical part of the economy.

Q: What has stayed the same in the new law?

- 1) First-time buyers still get a credit of as much as 10% of the purchase price, up to a maximum \$8,000,"First – time" means people including both partners of a married couple who haven't owned a principal residence for three years before the purchase.
- 2) All taxpayers who claim a credit must use the home as a principal resident for the next three years.
- 3) The credits offer dollar-for-dollar reductions of tax and refundable. This means that a taxpayer who doesn't pay enough tax to offset the credit can get a refund. For example, if you qualify for an \$8,000 credit but only owe \$5,000 in tax, you could receive a \$3,000 check from the Internal Revenue Service.

- 4) Under the new law, as under the old, 2009 home buyers may claim the credit on either their 2008 or 2009 returns, and 2010 buyers may claim the credit on either their 2009 or 2010 returns.

Q: What has changed?

Several important features took effect as of Nov 6:

- 1) To take advantage of the tax credits, a buyer must have a contract in place before May 1, 2010, and the deal must close before July 1, 2010. No further extension is expected.
- 2) The price of the house is now capped. For purchases made after Nov. 6, no credit is available for any home costing more than \$800,000.
- 3) There is now a tax credit for repeat buyers as well as for first-time buyers as well as for first time buyers. Taxpayers who have lived in one residence for five consecutive years of the past eight can now qualify for a tax credit of as much as 10% of the purchase price, up to a maximum \$6,500, of a new principal residence. The new home does not have to cost more than the old one.
- 4) Income limits for people who qualify for a tax credit are far more generous than under the previous law. For single filers, the credits now phase out between \$125,000 and \$145,000 of modified adjusted gross income; for married couples, the range is \$225,000 to \$245,000. For most people, modified adjusted gross income will be the same as adjusted gross income.
- 5) The new law contains anti-abuse measures designed to stem fraud, which became a problem with the previous home-buyer tax credit. Most buyers must be 18 or older, and no taxpayer may take a credit if he or she is claimed as a dependent on someone else's return. Taxpayers taking the credit will have to furnish proof of purchase. According to Robert Dietz of the National Association of Home Builders, this will usually be a HUD-1 form.
- 6) People taking the tax credit, as under the old law, aren't allowed to buy a home from a lineal ancestor or descendent. The new law, applying to purchases made after Nov. 6, also says a person may not take a credit if the home is purchased from a spouse or the spouse's lineal relatives.

It's time to wish all "Happy Holidays and Happy New Year." May 2010 be even better for you than 2009. Enjoy the season, and thank you for the opportunity to serve you this year.



Timothy T. Fullerton, Sr.



Mary Ahart

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