



Fullerton Tax & Planning

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"Real People provide Real Service"

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So, it is stocking stuffing time. The year is at an end and there is a Santa feeling in the air, including stock and bond markets.

The failures of November are rapidly being erased. Herman Cain is out, thanks to his own political party's smear campaign. He has good ideas, but they would have never worked in this Washington atmosphere. Strange way to attack someone, though. Isn't it odd that the last accuser was being supported by Herman financially, but now has no cash flow problems? Follow the money trail on that one.

Then the same party that kicked Herman out, polls Newt Gingrich as front runner. Let's see, adulterous affairs, divorce and marries the girl friend. Then he runs for office. All that as opposed to a candidate (Herman Cain) with 43 years of marriage. Sounds like a party about to implode.

Meanwhile, you can be thankful for something. Congress has two key issues to face this December. Extend the payroll cuts. Extend the Bush era tax cuts on the wealthy. See, if you are a Republican, extending a tax cut is the way to justify no tax increases. If you are a Democrat, not extending a Bush era tax cut justifies a tax increase. Pick a side. So you can see that the month will end like all Congressional actions of late. No extension of the payroll tax cut and no extension of the Bush era tax cuts. Result, over a trillion dollars in additional revenue. And you thought the budget issues were Obama's doing. No, he just continued the trillion dollar deficit that had been running for 3 years prior.

Meanwhile, Europe is getting down to the wire on debt issues. At least they are attempting to solve their debt problems. If the Euro community comes to a game plan in the near future, watch for continued market rallying. If they have bumps in the process, volatility will continue in the markets. So have cash ready for down markets.

On the Medicare side, December 7th was the deadline for this year's review and change of any Medicare plans. If you haven't noticed the television ads on this topic, you missed an obvious point. The Obamacare plan has kicked up the health insurance competition to a new level. Just what was intended by the plan. Don't get too comfortable with this process, though. Even if it has a healthy look now, watch for repeal advocates to push it back to the caves. Health care insurance lobbyists are concentrating on Republican campaigns to get this repealed.

So what do you get as a result of the repeal? Less competition for your Medicare premium dollars. No children covered on their parent's plans, no consumers with pre-existing being eligible for insurance coverage, no elimination of

the “Doughnut Hole” in the prescription drug plan of Medicare, no regional competition for individual insurance coverage and much more. If you are an insurer, this repeal will be a gift from heaven. If you are a current insured person or family, two words. You lose.

On to some brighter news,

The markets for November looked like,

THE MONTHLY INDEX REPORT FOR NOVEMBER 2011				
Index	Nov. 2011	QTD	YTD	Description
S&P 500 Index	-0.2%	10.7%	1.1%	Large-cap stocks
DJIA	1.2%	11.0%	6.7%	Large-cap stocks
Nasdaq Comp	-2.2%	8.7%	-0.3%	Large-cap tech stocks
Russell 1000 Growth	0.0%	11.0%	3.0%	Large-cap growth stocks
Russell 1000 Value	-0.5%	10.9%	-1.6%	Large-cap value stocks
Russell 2000 Growth	-0.5%	15.2%	-2.7%	Small-cap growth stocks
Russell 2000 Value	-0.2%	14.2%	-7.0%	Small-cap value stocks
EAFE	-4.8%	4.4%	-10.9%	Europe, Australasia & Far East Index
Barclays Capital U.S. Aggregate	-0.1%	0.0%	6.7%	U.S. Government Bonds
Barclays Capital U.S. High Yield	-2.2%	3.7%	2.3%	High Yield Corporate Bonds
Calyon Financial Barclay Index*	1.2%	-2.5%	-3.9%	Managed Futures
3-month Treasury Bill	0.0%	0.0%	0.0%	

All returns are estimates as of 11/30/11; Return numbers include reinvestment of dividends.
**Returns are estimates as of 11/29/11*

Going for the Gold A New Option in 2012

Until now, people enrolled in Part D drug plans and Medicare Advantage plans have been able to switch plans only during open enrollment, except in special circumstances.

In 2012 they'll be able to switch once a year at any time of year if they choose a plan that has earned Medicare's top five star quality rating. These plans are highlighted by a gold star on Medicare's plan finder website at medicare.gov.

For several years, Medicare has rated all its drug and health plans with stars ranging from one for “poor” to five for “excellent” according to a range of quality measures such as customer service.

In 2012 four plans will carry the gold star: the MedicareBlueRX Standard and Premier Plans in six states (Iowa, Minn., Mont., Neb., N.D. and S.D.) and the Rx1 and Rx 2 plans in N.Y.

If enough beneficiaries take advantage of it, the system could act as an incentive for poorer-performing plans. “Plans that do a better job serving the needs of their Medicare members should be awarded, and all plans should be encouraged to improve their performance,” says Jonathan Blum, Medicare's deputy administrator. But again, look for this feature that came out of the Obamacare to disappear after November 2012.

Medicare Drug Plans Shop and Save

If you have Medicare Part D prescription drug coverage, the chances are very high that you've been paying a lot more for your medications than you needed to, maybe several hundred dollars. That's because so few enrollees bother to compare Part D drug plans available to them.

Comparing plans during open enrollment is the best way to ensure that you that you don't miss out on your best deal for 2010, especially if you use a lot of medications.

But be warned: This year's seven-week open enrollment period began Oct. 15 and ended at midnight on Dec. 7 a deadline three weeks earlier than in previous years.

If you enroll in a different drug plan during this time, your coverage begins Jan. 1. If you stay in your current plan, it automatically rolls over into 2012. So if you didn't get to review this in 2011, get ready for a review in October of next year.

All part D plans can change their costs and coverage each calendar year. So pay attention to the "Annual Notice of Change" your current plan should have sent September. This spells out any changes for 2012, and may contain good news or nasty surprises.

Among "stand-alone" Part D drug plans the kind you have if you're enrolled in traditional Medicare rather than a Medicare Advantage plan a few that operated in 2011 will no longer be available in some states in 2012. But there are plenty of plan choices between 25 and 36 in each state. And the competition is heating up for your premium dollars.

Overall, monthly premiums in 2012 will range for \$15.10 to \$131.80. On average, premiums will fall slightly, but some will rise significantly.

For example, the country's most popular drug plan, AARP Medicare Rx Preferred, run by United Health Care, will increase its monthly premiums by an average of 14 percent, ranging from 20 cents in Arizona to \$8.10 in California. United Health Care spokesman Matthew Burns says that the plan "covers" more branded drugs than most of our competitors and has no deductible," adding that on average, "our premiums for 2012 are slightly lower than 2010 levels," given that they fell in most states in 2011.

How can I find the formula to compute the Social Security benefit I would be entitled to as either an ex-spouse of retired former husband or as an ex-spouse of a deceased former husband?

When I call Social Security, they will only tell me that the benefit I could receive is less than what I am currently receiving. Currently, my former husband is 68 and receiving the benefits.

A worker's divorced spouse may be able to collect a retirement benefit equal to as much as half of what the worker is entitled to at his or her full retirement age-the same benefit as for a current spouse. Among the requirement to qualify as an ex: You were married to the worker for at least 10 years, and you are currently at least 62 years old and unmarried. You aren't eligible if you are entitled to a larger retirement benefit based on your own work record which appears to be the case for you.

And "eligibility" is a key word here, says Dorothy Clark, a Social Security spokeswoman: A person who is eligible for a divorced-spouse retirement benefit can get an estimate of that benefit. If you're not eligible, you will be told only that.

You're smart to also ask about the potential benefit if your ex predeceases you: That amount can be much larger. Ms. Clark says a local Security office can estimate what, if anything, you might be entitled to as a surviving divorced spouse.

Paying Grandkids' Tuition

Sorting out 529 plans

I established a 529 plan for my daughter for her master's degree, but she did not go for graduate study. She had twins, and she opened 529 accounts for them. Should I transfer the money to their 529s or keep ownership? I am 67. and the grandkids are 1 year old.

If I keep ownership and if by chance I die before they are college age, what happens?

If you now want the money to go to your grandchildren's college costs, probably "the easiest way to go" would be to make your daughter the owner of the 529 you originally set up for her, says Joseph Hurley, founder of Savingforcollege.com. Most but not all plans allow that. Your daughter would be in control of the account and be able to divide the money into separate accounts for the twins including by moving those dollars into the 529 accounts she has already established for them.

A prime reason not to transfer ownership would be if you think you might need the money for yourself later in life. In that case, Mr. Hurley says, you could just change the beneficiary to be one of the grandkids and then transfer half the money to a new account you set up for the other twin. He cautions, though, that move could trigger gift-tax consequences for your daughter, because the beneficiary change would be treated as a gift from the original beneficiary, your daughter, to her child.

If you maintain ownership, you should name a successor owner possibly your daughter to oversee the accounts in case you die before the twins reach college age.

Safe at Home? Not in a 401(k)

How will 401(k) investors react to the latest blast of volatility in the markets? If the recent past is any guide, they will retreat into the apparent safety of cash, Treasury bonds and "stable value" mutual funds. They also will put money into their own company's stock, which can be far riskier than leaving it a typical stock mutual fund.

In August, when the Dow Jones Industrial Average went bucking up or down by at least 400 points on six out of the month's 23 trading days, investors pulled out of every variety of stock fund, according to the Aon Hewitt 401(I) Index, which tracks the daily transfers of some 1.5 million participants in retirement plans nationwide.

That movement wasn't a tidal wave; investors moved about 0.5% of their total assets, or \$580 million. Half of that went into bonds, but fully 23% landed in company stock.

Likewise, in September, when stock indexes slumped by 6% or more, retirement investors put a startling 35% of the money they pulled out of diversified stock funds into the shares of their own company.

But while investing in your company's stock might feel safer than betting on the stock market as a whole that is usually an illusion. The return of the overall market tends to be driven by a few big winners and, if your own company doesn't end up among them, you will miss out.

Brian Wenzinger of Aronson Johnson Ortiz, a money manager in Philadelphia, estimates that only 13% of the companies that made up the broad market Wilshire 5000 index generated higher returns over the past decade than the index itself.

What's more, you already work at your company; do you want your salary and your retirement fund riding on the same risk?

Pamela Hess, director of retirement research at Aon Hewitt, says investors are making this seemingly safe but potentially much riskier choice out of confusion and uncertainty. "The No. 1 response we get in [investment] surveys of employees is, I don't know what the right thing is to do in these markets," she says. So investors are moving more of their to their own company's stock, so it feels safe and secure to them."

That appears to be true even among people who, above all, should know better: the employees of big banks and brokerage firms, many of whom earn their living by advising clients not to put too much money in the shares of

companies where they work.

“It’s a pretty concentrated problem,” says Shlomo Benartzi, a finance professor and expert on 401(k) plans at the University of California Los Angeles. “A few companies have lots of company stock, and ironically, employees at some financial services firms have huge exposure.”

Company Stock in Your 401 (k) is still a Bad Idea

At the median 401(k) plan offering company shares, 12% of assets are in the employer’s stock, according to the Plan Sponsor Council of America. That is down by nearly half from a decade ago, although it tends to remain higher at larger employers including many major financial firms, where workers are deep into company stock, according to public documents.

At many companies, spokesmen say, allocations are high because the firms match or used to match their employees’ contributions with company stock rather than cash. If your company matches your contributions in shares of its own stock instead of cash or a diversified fund, you are likely to leave the money there. Through sheer inertia, dollars tend to stick where they land, in what economists have christened the “flypaper effect.”

At several big financial firms, the numbers have come down so far this year as the companies continue efforts to encourage workers to diversify.

Sometimes, however, the market forcibly reduces these exposures; with Morgan Stanley’s shares falling 48% this year, they probably make up less than 15% of 401(k) assets at the firm now. The bank’s employees have lost an estimated half billion dollars on the stock so far in 2011.

If the latest market madness has you running for cover, find it in bonds or a blended “life cycle” fund not your company’s stock. And if your employer matches your contributions in its own shares, move them into more diversified funds on a regular schedule whenever company stock exceeds 15% or so of your 401(k). Don’t let yourself get locked up too close to home.

Some Borrowers Find Little Relief

The Treasury Department announced plans Monday to beef up its foreclosure-prevention effort by pressuring mortgage companies to complete more loan modifications.

But the new initiatives don’t address significant shortcoming of the program, which often provides little relief to borrowers who have lost their jobs or who owe far more than their homes are worth.

The program provides financial incentives for mortgage companies and investors to reduce loan payments to affordable levels for financially troubled borrowers. The Treasury said Monday that it would send “SWAT teams” to the largest mortgage servicing companies and talk twice a day with mortgage executives to boost their success rates.

More than 650,000 borrowers have begun making trial payments under the program, but few homeowners have received permanent fixes. Assistant Treasury Secretary Michael Barr said the Obama administration has called executives from top mortgage companies to Washington next week to explain. Mortgage companies that perform poorly in the modification program could face monetary penalties and sanctions, though the administration declined to provide specifics. “Servicers need to do better,” he said.

To qualify for a reduced mortgage, borrowers must first make three reduced payments under a trial program. To receive a permanent fix, borrowers must also provide a hardship affidavit and other documents.

But many borrowers complain that it is difficult to get a permanent loan modification even after making required trial payments.

Don’t Wait to Rebalance

This adviser buys when prices tumble, rather than on a set timetable

To help clients benefit from market volatility, financial adviser Michael Chasnoff relies on what he calls real-time rebalancing.

Rebalancing is an age-old investment tenet which suggests that investors should add or sell stocks and bonds in their portfolio to ensure that their original asset allocation remains steady despite movements in the markets. The traditional advice is that investors should look at their portfolio once or twice a year and rebalance accordingly.

Mr. Chasnoff, however, says that waiting for a specific date can cause investors to miss out on big price moves, especial in volatile markets. So he constantly monitors clients' allocations with the help of a computer program: if investments move a certain percentage away from their target allocation, Mr. Chasnoff swoops in to buy or sell them during the trading day.

That's what he did on Oct. 4 when the Dow Jones Industrial Average fell nearly 300 points at one point, which added to losses over the previous days and sent clients' stock holdings to 20% below target allocations. Mr. Chasnoff and his investment team bought stocks, mostly through exchange-traded funds, for all clients that morning. The Dow ended the day up 153 points, at 10,808.71, and has since been gaining value.

"Had we been rebalancing on a calendar basis, we might not have ever seen that opportunity," says Mr. Chasnoff.

Not everyone agrees with the idea of frequent rebalancing.

Mr. Chasnoff says that his firm is able to get low transaction costs because of its large size, and that the rebalancing software allows his team to do some tax-loss harvesting, which helps enhance returns.

But for most individual investors, Mr. Chasnoff agrees that calendar-year rebalancing might be the way to go. Steven Condon, managing principal at True-point, says the biggest issue for individuals is that when stocks are falling and people should be buying, "the emotion is to do exactly the opposite."

Here, the advisers share their model portfolio for clients with a moderate risk appetite. The portfolio has an expense ratio of 0.26% and returned an annualized 5.86% over the 10 years ended Oct. 31, according to True-point. The returns are net of True-point's fees, which are 0.7% to 0.8% of assets.

Meanwhile, on the coming month, check your income at the door and calculate the estimates needed to be paid by January 17, 2012. Employers remember that you have payroll tax forms due by January 31st.

Have a Warm Holiday with friends and family, Merry Xmas and Happy Hanukah to those who celebrate and a Happy New Year to all. Next year will be eventful from the get go, so have a great December, and buckle your market safety belts for January 2012 and beyond.



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Mary Ahart

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