



Fullerton Tax & Planning

www.fullertontax.com

30 East Avenue, Riverside, IL 60546 Ph: 708-447-5667 / Fax: 708-447-5733

E-Mail: Tfullerton@fullertontax.com Ahartinvestments@yahoo.com

e.duga@fullertontax.com

"Real People provide Real Service"

February, 2010



Happy Valentine's Day.....

We looking at a delayed January effect on the markets happening instead in February. So look for swings on stock portfolios. Health care is taking a back seat to jobs. Despite all the clamoring by politicians, the Fed is quietly drawing down the excess cash flow in the economy. The draw down hasn't affected inflation yet. It should show up in interest rates by the year end. Especially after all the election results in November. So you have a six month reprieve on mortgage rates climbing. But as soon as the jobs situation drops below 8% unemployment, the banks will be back in business. After all the bonuses that they paid out last year, unless they get back in business of lending, this year's retention monies will be substantially less.

After the Republicans make their run in November, they have less than two years to do something other than complain. The American population, according to the latest censuses, have a shorter patience on political job retention.

As to the markets,

Indices for January 2010.

Index	Dec-09	QTD	YTD	Description
S&P 500 Index*	-3.7%	-3.7%	-3.7%	Large-cap stocks
DJIA*	-3.5%	-3.5%	-3.5%	Large-cap stocks
Nasdaq Comp.*	-5.4%	-5.4%	-5.4%	Large-cap tech stocks
Russell 1000 Growth	-4.4%	-4.4%	-4.4%	Large-cap growth stocks
Russell 1000 Value	-2.8%	-2.8%	-2.8%	Large-cap value stocks

Russell 2000 Growth	-4.5%	-4.5%	-4.5%	Small-cap growth stocks
Russell 2000 Value	-2.9%	-2.9%	-2.9%	Small-cap value stocks
EAFE	-4.4%	-4.4%	-4.4%	Europe, Australasia & Far East Index
Lehman Aggregate	1.5%	1.5%	1.5%	U.S. Government Bonds
Lehman High Yield	1.3%	1.3%	1.3%	High Yield Corporate Bonds
Calyon Financial Barclay Index**	-1.4%	-1.4%	-1.4%	Managed Futures
3-mo. Treasury Bill***	0.0%	0.0%	0.0%	

All returns are estimates as of January 29, 2010. *Return numbers do not include dividends.

** Returns are estimates as of January 28, 2010.

There is nothing worse than a trading day that starts with the promise of big gains but instead results in a sell-off. Such was the fare of stocks on the last day of January. Buyers started lining up after government reports showed that GDP grew at a faster than expected rate and on news that Fed Chairman Bernanke was reappointed for another term. But the rally just wasn't strong enough to last, and stocks ended the day down about 1%. U.S. equities ended the month with a -3.6% loss.

It's easy to see why investors are nervous. China has tamped down on growth by cutting lending. The federal deficit is large, and will get even bigger until budget cuts force it down. Housing has yet to show tangible signs of support, and the foreclosure rate is still problematic. Add a high unemployment rate and political uncertainty, and jitters caused by a 6% drop in stock prices from their highs on January 19th until month-end, and a recipe for losses is nearly complete.

Fortunately, there are still some positives to found. With extremely low interest rates and recent gains in the credit market, there is little competition for risk capital that needs to make an 8-10% return. This earnings season has been a good one, and the economy is rebounding from improvement in personal income. The recovery might be slow, but it seems to have steady if unimpressive pulse. The bottom line: stocks have more room to run in 2010.

Predictions.

Money manager Tom McIntyre says he expects the market to continue its strong recovery early in 2010, but says that no matter which way the economy goes it will likely be bad news for investors in the latter portions of the year. In an interview with Chuck Jaffe, MarketWatch senior columnist, McIntyre stressed that companies with solid balance sheets will be the ones that can make investors happy in the year ahead.

Making Work Pay Credit

Here's a new credit aimed at providing tax relief for working people. The Making Work Pay credit allows a dollar for dollar reduction of your taxes equal to 6.2 percent of your wages up to a maximum credit of \$400 for single filers, \$800 if you're married and file jointly. The credit will be available for 2009 and 2010.

Uncle Sam put limitation on who will be eligible to take the credit. For high income taxpayers, those with modified adjusted gross income exceeding \$75,000 for single filers, \$150,000 for joint filers, the credit will be reduced by 2 percent of your income in excess of these limits. For example, if you were a single taxpayer with modified adjusted gross income of \$90,000, (\$15,000 over the \$75,000 limit) your Making Work Pay credit would be \$100. This is calculated by multiplying your \$15,000 excess income by 2 percent to get your phase-out of \$300 and then subtracting your phase-out from the \$400 maximum credit allowed. Other limitations disallow the credit for nonresident aliens and dependents claimed on another taxpayer's return.

This credit may be an easy one for taxpayers to miss. Your tax preparer will be able to complete the required Schedule to insure you get any credit available.

New Car Sales Tax Deduction

If you purchased a new car, light truck, motor home or motorcycle after February 17, 2009 and before January 1, 2010, you'll be glad to know that Uncle Sam will allow you to deduct state and local sales and excise taxes paid.

The deduction is limited to the portion attributable to the first \$49,500 of the purchase price. The deduction is phased-out for married taxpayers filing joint with modified adjusted gross incomes between \$250,000 and \$260,000, and for all other taxpayers between \$125,000 and \$135,000.

The special deduction is available whether or not you itemize your deductions. If you do not itemize you may add the additional amount to your standard deduction on your 2009 tax return. Your tax preparer will be able to show you how to correctly report this deduction.

New Law Exempts Partial Unemployment

If you were out of work and received unemployment benefits you'll be glad to know that Uncle Sam has come to your aid.

Prior to 2009, unemployment benefits were included in income and fully taxable. The new law temporarily allows unemployment recipients to exclude from income up to \$2,400 of benefits for 2009. Amounts exceeding the threshold will continue to be fully taxable.

New Standard Mileage Rates

For 2010, the business standard mileage rates for the cost of operating your car, van or pickup is 50 cents, down from 55 cents in 2009. The standard rate for medical or moving is 16.5 cents per mile, down from 24 cents.

The business rate is based on an annual study of the fixed and variable costs of operating a vehicle. The business rate is intended to reimburse the full cost of vehicle ownership and includes the loss of value due to depreciation. The rate for medical and moving is based only on the variable cost of operation. This rate is intended to only reimburse the additional out-of-pocket cost and includes such costs as fuel and maintenance.

The standard mileage rate for charitable purposes is set by law. The rate for 2010 stays the same at 14 cents per mile. Uncle Sam has not changed this rate since 2008.

Proposed Tax May Help, Not Hurt, Investors

Will Congress, rabid to tax Wall Street, end up hurting the little guy who invests in mutual funds?

A plan on Capitol Hill for a financial-transactions tax has provoked warnings that small time investors putting their money in funds will suffer from the extra expense. But what has been overlooked is that this levy might do some good for those little guys.

Estimates suggest the proposed tax's burden on mutual fund investors, while real, would be smaller than other controversial fees investors have paid for years, to Wall Street rather than the government.

Moreover, a tax could be an unintended plus, pushing investors into cheaper index funds, which in most recent years perform better than the more numerous (and costlier) actively managed funds.

Index funds are the holdings most experts believe best suit small investors. Stock index portfolios, comprising just 13% of stock-fund assets at the latest count of the Investment Company Institute, have long had a hard time competing for investors against active portfolios. Active funds generate bigger profits and, hence, benefit the most from the fund industry's marketing dollars.

In December, Rep. Peter DeFazio (D., Ore.) introduced the "Let Wall Street Pay for the Restoration of Main Street Act of 2009," calling for a tax of 0.25% on stock and derivative trades.

The ICI, the fund industry's trade group and other opponents of the tax idea argue that small investors in particular would bear the brunt of the levy. True, under the DeFaczio plan, investors who trade less than \$100,000 of stocks each year would be exempt from the tax. Yet mutual funds, buying and selling on behalf of mom and pop, would do the paying.

The ICI estimates the tax would boost operating costs of the average index mutual fund by about 0.05 percentage point and the average active fund by 0.14 percentage point.

As the ICI points out, the 0.05-point jump would increase index funds' annual costs by a third. Still, those increases pale when compared to the money the industry rakes in from another, much-criticized expense, the marketing-related 12b-1 fee.

U.S. Aid Benefits Banks, Not Homeowners

Government support for the economy has helped banks make all manner of windfall profits. But have outsize returns in banks' mortgage operations deprived borrowers of lower mortgage rates?

In 2009, there was a big jump in an industry margin used to gauge the profitability of banks' main mortgage business, selling home loans to government-supported Fannie Mae and Freddie Mac.

In theory, if that margin had remained at narrower, historical levels, mortgage rates for borrowers could have been lower. That might have caused sizable savings for homeowners over the life of their loans and breathed more life into the housing market.

Banks' mortgage profits have come amid extraordinary government support for the housing market. Since 2008, the Treasury has spent \$112 billion to shore up Fannie and Freddie. Further support has come from the Federal Reserve's \$1 trillion-plus of purchases of mortgage-backed securities since the start of 2009. All this has helped mortgage rates fall. But could they have been lower still?

Consider what happens when banks sell their loans to Fannie or Freddie. A bank might write a mortgage at 5.1% and sells it to Fannie, which guarantees the loan and sells it with other loans packaged as mortgaged-backed securities, perhaps with a coupon of 4.35%. The difference of 0.75 of a percentage point is booked by the bank, which uses some of that revenue to cover costs in its mortgage business. From 2000 through 2008, that margin averaged 0.73 of a percentage point, according to Barclays Capital data. But in 2009, the average was a much wider 0.98 of a percentage point.

Any additional margin likely boosted banks' bottom lines. And by a lot, potentially, given that \$1.4 trillion of mortgages were written in the first three quarters of 2009, according to Inside Mortgage Finance. Indeed, Wells Fargo and Bank of America, which together account for 45% of the market, reported blowout mortgage earnings last year.

The cause of the wider margin: The Fed's buying helped pull down coupons on Fannie and Freddie securities by more than mortgage rates. If banks had cut mortgage rates in line with those coupons, homeowners would have benefited. Instead, the benefit appeared to have accrued to the banks.

Banks say the higher margin only offset higher expenses. But basic costs, like the guarantee fee bank pay to Fannie or Freddie as well as loan-servicing costs roughly 0.25 of a percentage point each likely haven't gone up excessively.

Employee name investment adviser in 401(k) suit

A wave of litigation in small-plan market could follow, experts say

New targets have surfaced for lawsuits over 401(k) fees: small retirement plans, the investment advisers and the service providers.

A group of fewer than 30 employees at a small company in Kansas has filed a lawsuit against the investment adviser, record keeper and custodian for its \$2 million 401 (k) plan, alleging that the trio of plan providers caused participants to pay "secret" and "excessive" fees.

The claim itself is a familiar one, of course, as more than a dozen Fortune 500 companies that boast billions in their 401(k) plans have been it with similar suits in the past four years.

In the latest litigation, participants in the plan at Wichita-based Orthopedic and Sports Medicine at Cypress LLC filed a complaint against its three key 401(k) plan providers: SJP Advisors LLC and VLP Corporate Services LLC, both of Dallas, and The Charles Schwab Corp. of San Francisco, the custodian for the plan.

The group of participants alleges that the trio engaged in undisclosed and unauthorized revenue sharing practices that inflated the fees that workers at the company paid to have their assets held in the 401(k) plan. In the complaint, the group stated that Schwab "would secretly pay a share of its revenue received from the mutual funds that were held by the plan to VLP," and also facilitated additional undisclosed payments to SJP.

"It's incumbent upon these companies to at least ask for more disclosures at this point," said Tom Ruggie, president of Ruggie Wealth Management in Tavares, Fla., an investment adviser to the small 401(k) market. "The service providers can say no, of course, but it's a plan sponsors' duty to seek out more information given all that's going on around fees at the moment."

Some of the large-company fee suits are expected to go to trial this year, and observers noted that rulings in these cases will provide some guidance on how individual courts view the 401(k) fee issue.

10 Stocks to do well in 2010

Exxon Mobil

Don't think of Exxon Mobil as just an oil giant. A more accurate way to describe this behemoth, with a \$353 billion market value, is a capital-allocation machine.

Thanks to its operational efficiency and management's discipline in weighing new oil and gas projects, Exxon Mobil's returns on capital -- a measure of how effectively a firm deploys resources -- are consistently above those of its peers.

Johnson & Johnson

There are plenty of things to like about this \$172 billion health-care giant. For starters, its diverse business lines -- 40% of sales are from pharmaceuticals, 35% are from medical devices, and the rest come from consumer products -- throw off tons of cash. And that has helped J&J raise dividends for 45 years.

The firm is diversified in another way: Half its sales come from abroad, so if the dollar keeps falling, foreign revenue should see a boost.

Sysco

With a market capitalization of \$16 billion, this Houston-based company is modest in size compared with Exxon Mobil and J&J. But Sysco is the largest food distributor in North America, controlling 15% of the market.

NSTAR

After being overvalued for some time, many utilities are back to trading at attractive levels. If you're looking for a conservative yield play, check out NSTAR. This midsize, fully regulated utility based in Boston has great fundamentals.

Exelon

Another utility -- with a bit more upside than NSTAR, but a little more risk -- is Exelon. This Chicago-based company operates electric utilities in Illinois and Pennsylvania, where the regulatory environment isn't as friendly as in Massachusetts.

Paychex

High-yielding stocks sometimes suffer when market interest rates rise -- which they eventually will as the economy accelerates. That's because in a rising rate environment, bond yields begin to look more attractive than stock dividends.

Realty Income

Yield-seeking investors have traditionally looked at real estate investment trusts to boost income. Though -- don't think many REITs are terribly attractive today, Realty Income is an exception.

Novartis

In recent years Big Pharma has been plagued by slow growth. But this Swiss pharmaceutical giant is bucking the trend, thanks to a number of recent blockbuster launches.

Thermo Fisher Scientific

This \$19 billion manufacturer of scientific equipment is essentially a one-stop shop for health-sciences researchers.

Its diversity of products -- it sells everything from basic consumables like lab chemicals to big-ticket items like mass spectrometers -- certainly helped during the recent recession. Steady sales of consumables, for instance, helped make up for weaker demand for high-end equipment.

WellPoint

Shares of beaten-down health insurance companies like WellPoint are very cheap. And the sheer size of this Indianapolis-based company -- it is the largest U.S. health insurer (based on membership), and runs 14 Blue Cross and Blue Shield plans across the country -- gives it bargaining power with hospitals when it comes to negotiating costs.

Finally, just to see if you really read all the above, here's a small tax point for Illinois taxpayers. On your 2009 and future tax returns, you will need to include the PIN of your Illinois properties. That is the Property Identification Number of Real Estate. So, before going to your tax preparer or tax software to do your return, dig it up.

Have a great month, enjoy the snow, especially out East, and see you next month.



Timothy T. Fullerton, Sr.



Mary Ahart

Note: The securities listed are subject to market change. The above information is compiled with information from Research Departments of Investors Business Daily, Standard & Poor's, Zacks.com, The Motley Fool, Marketwatch and Bankrate.com. It is not reflective of Fullerton Tax & Planning or FTP Services as a solicitation to buy or sell a specific security. The report is for information purposes only. For further details on any specific listed securities, visit the websites of the research companies listed. Securities offered through T D Ameritrade. Member NASD/SIPC.