



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"

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A new beginning.....

Which seems to be happening much faster every year. This month is full of things to happen. The Health Care Bills are going to committee and will probably pass. Then we can get on with solving unemployment, trade deficits, weakening dollars, war budgets, national security issues, There are changes in tax rules for 2010 as well. So keep one eye on the markets and one eye on your portfolios.

ETF's are starting to take over for mutual funds. The increase in number of ETF's and the mirror strategies with former mutual funds has portfolios moving to the ETF side. Cheaper and more transparent features are very appealing.

On the banking front, the mortgages that went under in 2009 are still increasing. The big banks are scrambling to back up their advertising with real numbers on modifications and home loan retention programs. Based on Bank of America, alone, there has been \$3 billion in modifications, but the government offices indicated less than \$600 million nationally have been work on. Hmm.... sounds like an Allstate car insurance advertisement.

One shining light on mortgages is the indication that mortgage brokers, though expensive in fees, are eating the big banks for lunch. The rates are there, (less than 6% fixed) and the loan officers are doing closings weekly. Keep up the good work and maybe the banks will peek out in February and see the shadow that they have become.

The Monthly Index Report for December, 2009

Index	Dec-09	QTD	YTD	Description
S&P 500 Index*	1.8%	5.5%	23.5%	Large-cap stocks
DJIA*	0.8%	7.4%	18.8%	Large-cap stocks
Nasdaq Comp.*	5.8%	6.9%	43.9%	Large-cap tech stocks
Russell 1000 Growth	3.1%	7.9%	37.2%	Large-cap growth stocks

Russell 1000 Value	1.8%	4.2%	19.7%	Large-cap value stocks
Russell 2000 Growth	8.6%	4.1%	34.5%	Small-cap growth stocks
Russell 2000 Value	7.6%	3.6%	20.6%	Small-cap value stocks
EAFE	1.5%	2.2%	32.5%	Europe, Australasia & Far East Index
Lehman Aggregate	-1.6%	0.2%	5.9%	U.S. Government Bonds
Lehman High Yield	3.3%	6.2%	58.2%	High Yield Corporate Bonds
Calyon Financial Barclay Index**	-3.0%	-1.8%	-4.4%	Managed Futures
3-mo. Treasury Bill***	0.0%	0.0%	0.3%	

All returns are estimates as of December 31, 2009. *Return numbers do not include dividends.
** Returns are estimates as of December 30, 2009.

Calculating the best age to take Social Security benefits is tricky, but critical.

Many Americans take Social Security early, at age 62, because they really need it. They're in poor health or unemployed or both. Others take benefits early because they're worried they'll lose out on what's rightfully theirs if benefits are reduced. But few people try to figure out the best age to take Social Security -- and that's a serious mistake.

What's key is evaluating the so-called break-even period to determine whether it would be better to delay Social Security benefits (delaying them means a higher monthly benefit), take a reduced benefit early, or start them at "normal" retirement age. Of course, there's a good reason why so few people really do the calculations.

"When to begin Social Security retirement benefits is a challenging question that vexes many financial planners and clients," Michael Kitces, editor of The Kitces Report, wrote in a recent issue.

"Is it better to begin payments early, or to delay Social Security and forfeit current payments to receive a larger income stream in the future?" he said. "Although the analysis of such a question would seem relatively straightforward, the complex rules of Social Security make the evaluation more difficult, especially when evaluating the implications of living beyond the so-called 'break-even' point."

Putting It Off Can Pay Off

One of the biggest risks to your retirement plan is unexpected longevity -- living longer than you expect and having to fund additional years of retirement. "The decision to delay Social Security provides tremendous additional value, at the exact time that it is needed," Kitces said.

Another risk: High inflation. "To the extent that inflation turns out to be unexpectedly high, delaying Social Security benefits also turns out to be an effective inflation hedge, because the value of delaying increases in higher inflation environments," he wrote. Though not the case now, during high inflation, which many predict on the horizon, you would get larger cost-of-living adjustments.

How to Decide

"At the most basic level, the decision about whether or not to delay Social Security retirement benefits represents a very straight-forward trade-off," Kitces wrote. "You can either receive cash payments now, in your pocket, to spend or invest however you choose, or you can give up those payments in exchange for receiving a higher stream of income for life at a future date."

Here are the things you should consider to make a more informed decision.

1. What's Your Normal Retirement Age?

The first order of business: You need to know what your normal retirement age, or NRA, is. If you were born in 1937 or earlier it's 65. If you were born in 1970 or later it's 67. And if you were born between 1938 and 1969, it's somewhere in between. Of note, if you were born in 1943, your NRA is 66. And since it's now 2009, that means anyone born in 1943 is now at NRA, the age at which you can receive your full Social Security benefit.

2. Will You Be Working?

It's also important to note that one of two different exempt amounts applies, depending on the year in which you reach your NRA. Under the earnings test, your Social Security benefits are reduced by \$1 for every \$2 of earned income that you have in excess of \$14,160 per year. But if your NRA is 2009, your benefit is reduced \$1 for every \$3 of earned income in excess of \$37,680.

3. How's Your Health?

At the end of the day, Kitces said the most significant factor in the entire process of evaluating the decision to delay Social Security is whether you're likely to live long enough to receive value from higher monthly benefits. The shorter your life expectancy, be it because of health, genetic, or other relevant factors, the less prospective value to delaying Social Security. If you're not expected to live long enough to reach the break-even point or you're so unhealthy that you may only live a few more years, "it will virtually always make sense to begin benefits as soon as possible, and get as many payments as possible," Kitces said.

Now the tricky part here is two-fold: First, what's your life expectancy? In 2006, life expectancy at birth for the total population reached 78.1 years, according to the Centers for Disease Control and Prevention. But a man aged 62 has a life expectancy of about 19 years, and a woman of the same age has a life expectancy of 22 years.

The Caveats

If you're married, you'll need to figure out what impact your decision regarding the timing of your Social Security benefits will have on both spousal benefits and widow's benefits. Also, you'll need to figure the effect of taxes on your decision.

"Social Security benefits have their own unique rules for determining the amount of benefits that will be subject to taxation, and there is significant interplay between the taxation of Social Security benefits and other aspects of the client's planning situation that may create taxable income and affect the taxability of Social Security," Kitces said.

There you have it. You can certainly take Social Security early if you want. Goodness knows many do. But given that Social Security might represent one of your largest assets and perhaps your most dependable income stream, wouldn't you rather know that you had it as close to right as possible?

How to Repay Student Loans

Too much debt? Too little income? Find a game plan that works for you.

YOU GOT THROUGH COLLEGE

With straight A's, but now you face your first big test as a young adult: squaring a starting salary with payment on your student loans.

That's a pressing issue for June grads as their six-month grace period on student-loan repayment ends. The challenge is especially great for borrowers whose debt includes private loans. Whereas federal loans including Staffords as well as Grad PLUS loans generally carry a fixed interest rate (Staffords issued before July 2006 have variable rates) and flexible repayment terms, private loans usually have variable rates and less-forgiving repayment policies. You could end up paying far more than you expected, with no relief in sight.

Best strategy? Figure out a way to make the federal loans manageable, then throw every spare nickel at the private loans (assuming the lender allows you to prepay), says Edie Irons, of the Project on Student Debt. "Because there are

fewer protections, it should be a priority to try to pay off private loans first.”

Luckily, you have plenty of choices on the federal-loan side, whether your loan comes from a private lender who participates in the Federal Family Education Loan (FFEL) program or from the government’s Federal Direct Loan program.

I HAVE STAFFORD LOANS AND WANT TO REPAY THEM AS PAINLESSLY AS POSSIBLE. WHICH PLAN SHOULD I CHOOSE?

You’re automatically enrolled in the standard repayment plan unless you say otherwise. Stick with this plan, under which you make 120 equal monthly payments over a ten-year period. Be sure to take advantage of any discounts, such as 0.25% off the interest rate for having payments deducted automatically. If you want to unload your loans on a faster timetable and save on interest, pay a bit more than the allotted amount each month. Be sure to specify in writing that you want the extra amount to be applied to the principal.

MY SALARY IS LOW NOW, BUT I EXPECT IT TO JUMP IN THE NEXT FEW YEARS.

The graduated repayment plan suits your situation. Monthly payments start low and rise in increments over the ten-year period. Because you pay less in the early years, you pay a bit more in interest over the life of the loan than you would with the standard plan.

Say you have a total of \$25,000 in Stafford loans, each with a 6.8% interest rate. With a standard repayment plan, you’d pay \$288 in 120 monthly payments, for a total of \$34,524. With a graduated plan, you could pay \$142 a month for the first three years and \$375 a month for the remaining seven. Your total payments would add up to \$36,590.

I HAVE \$40,000 IN STAFFORD LOAN DEBT AND CAN’T AFFORD THE MONTHLY PAYMENTS.

The extended repayment plan applies to borrowers who owe more than \$30,000 on their federal loans. The plan lets you stretch the payments as long as 25 years, lowering the monthly amount but increasing the cost of the loan. On \$40,000, you would pay \$227 a month for 25 years, for a total of \$83,289.

I STILL HAVEN’T FOUND A JOB AND DON’T KNOW HOW I’LL BE ABLE TO MAKE MY PAYMENTS.

The federal loan program offers a respite on repayment if you are unemployed, are experiencing economic hard-ship, have returned to school more than half-time or are on active duty in the military. If you defer based on unemployment or economic hardship, you can postpone repayment one year at a time for up to three years. The interest stops building on subsidized Staffords during that time but accrues on unsubsidized Staffords. If you can, continue paying the interest during the deferment to avoid creating a much bigger debt.

I’M IN OVER MY HEAD ON MY FEDERAL STUDENT LOANS. HELP!

If you don’t qualify for a deferment on your federal loans and you don’t see yourself in the other scenarios outlined here, apply for forbearance. Forbearance also puts repayment on hold, in some cases for a year at a time for up to three years, and in others for as long as five years. Interest keeps accruing on both subsidized and unsubsidized loan, making forbearance less advantageous than deferral but better than going into default.

Because the meter keeps ticking on interest, try to get back on track as soon as possible, says Martha Holler, of Sallie Mae, the loan company. “The goal is not to be in forbearance for the maximum amount of time.”

Whatever your problem, face it now rather than later, says Gary Carpenter, a certified college financial planner in Syracuse, N.Y. “Lots of kids get into trouble because they don’t contact lenders soon enough,” says Carpenter. “Once they get into default, lenders won’t listen.” He says its better to go your lenders right away and say, “Hey, I’ve got a problem-I need help.”

The Gift That Keeps On Giving: a Roth IRA

If I leave a Roth IRA to my wife, does she have to make required withdrawals every year? And if my wife then names our two adult children as equal beneficiaries of the same Roth IRA, as long as it hasn't been depleted at the time of her death, can they split it 50-50? How should they retitle the IRAs? Assuming they have to take required distributions, how would this work? And given the fact that they would have to title these accounts as inherited IRAs, would they have full authority to manage and direct the allocations of their portfolios?

A ROTH individual retirement account can be a gift that keeps on giving if you handle it right.

If you inherit, a Roth IRA from your husband or wife, you can roll the assets into your own Roth IRA. That way, you avoid having to take any required distributions from the account, says Michael Jones, a certified public accountant in Monterey, Calif.

Another perk is that the surviving spouse gets "credit" for the time that the original owner held the account. Roth IRAs generally are subject to a "five-year rule": You can withdraw your original contributions to a Roth at any time with no tax or penalty, but you have to wait five years to avoid tax on earnings on regular contributions. The clock starts the year you open your first Roth IRA. (If you were to open a Roth today, the five year clock would be set to Jan. 1 2009.) You also have to turn 59 ½ years old to avoid a 10% penalty for early withdrawals. (Note: The rules work a bit differently for Roth Conversions.)

When Sibs Split the Bills

Q: The stock market wiped out my elderly parents' savings. My two sisters and I now have to help with their bills. How should we divide them, given that some of us have more money and some of us have more kids?

A: Hold on. Before you divvy the bills, there's a lot more to consider than bank accounts and kids. What if, for example, one sister is providing most of your parent's day-to-day care? Or one of you previously received large gifts of money from your parents? Or the only reason one of you can't contribute is that she's a spendthrift? To equitably apportion your folks' expenses, you need to put everything on the table.

Not a discussion you want to have? We sympathize but have it anyway. While the three of you needn't do exactly the same things for your parents, you have an ethical obligation to one another to share fairly-truly fairly-the responsibility for looking after them. That's unlikely to happen without, as the diplomats say, a full and frank discussion of all the issues and, we suspect, a little friendly persuasion.

On the Fixed Income side, there are few 2% or greater offers locally. Check out West Towns Savings in North Riverside for Money Markets and 91 day Certificate of Deposits while the offer lasts.

On Bond portfolios, you need to be very careful in keeping your maturities under 7 years. Inflation will be on the horizon, especially in a Republican rally in the fall. The effect will be to produce large drops in prices of bonds, and the longer the bond maturity, the greater the drop. So stay short and look for rolling over monies every six months to a year.

Just for you stock pickers, here's the S&P report on one of their portfolios.

CURRENT HIGH-QUALITY CAPITAL APPRECIATION PORTFOLIO

‡QUALITY				CURRENT	**12-MONTH	‡P/E	YIELD
COMPANY / TICKER ‡STARS RANKING		*RISK	STYLE	PRICE	TARGET PRICE	RATIO	LD (%)
Bard (C.R.) / BCR 3 A		Medium	Growth	79	86	14.3	0.9
C.H. Robinson Worldwide / CHRW	5 A+	Low	Growth	59	80	24.0	1.6

Church & Dwight / CHD	5	A+	Low	Growth	61	70	15.9	0.9
CVS Caremark / CVS	4	A	Medium	Blend	32	33	12.0	0.9
EOG Resources / EOG	4	A-	High	Growth	95	108	26.3	0.6
Fastenal / FAST	5	A	Medium	Growth	41	51	28.3	1.8
General Mills / GIS	5	A-	Low	Blend	70	79	15.2	2.8
Hudson City Bancorp / HCBK	4	A	Low	Blend	14	16	12.0	4.3
Int'l Business Machines / IBM	5	A	Medium	Growth	129	163	11.5	1.7
Johnson & Johnson / JNJ	4	A+	Low	Growth	64	70	13.1	3.1
Mylan / MYL	5	A-	Medium	Growth	19	22	12.3	Nil
Nike / NKE	4	A+	Medium	Growth	65	70	17.5	1.7
Procter & Gamble / PG	4	A+	Low	Growth	61	65	16.9	2.9
United Technologies / UTX	4	A+	Low	Growth	69	77	15.2	2.2
Wal-Mart Stores / WMT	5	A+	Low	Blend	53	62	14.7	2.1

*Based on our analysts' assessment of qualitative factors, including financial strength, potential share volatility, competitive position, industry cyclicality, regulatory/legal issues, and other factors.

**Please note that all investments carry risks. Specific risks to each stock recommendation and target price can be found in each company's individual stock report.

†Price/earnings ratios are based on

Standard & Poor's estimated fiscal 2010 per-share earnings. ‡See definitions on page 2. Source: S&P Equity Research.

On Beyond Wealth

The greatest growth now may be among family offices, and multigenerational planning is just the beginning. Do you know how to buy a yacht?

Let's forget the meltdown, The Madoff scandal and insolvent banks for a moment. The new trend is a family office. Right now, 4,000 family offices with a combined \$1.05 trillion in assets are stealing green from financial advisors, according to a recent Celent study.

There were 25% more family office client relationships in 2007 than in 2006, based on a survey of 83 family offices with a combined \$333 billion, making this the hottest growth area in the advice market, according to the Multifamily Office Study of 2008, published last fall by the Family Wealth Alliance. Assets under advisement at these multifamily offices (MFOs) climbed 12% during this same one-year period, it adds.

Meanwhile, file on time and early. Make sure extensions are filed if there is any doubt on late filing. You will help lower your total tax due by eliminating the late payment penalty. Have a great month, and for those in the Midwest and North East, stay warm. We will see you next month.



Timothy T. Fullerton, Sr.



Mary Ahart

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