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"Real People provide Real Service"

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Luck of the Irish to you.....

The markets are back to working in positive numbers. We have found the rainbow in sectors like energy, health care and consumer discretionary. International funds are still recovered, thanks to the Euro effect.

As to the markets,

Indices for February 2010.

Index	Feb-10	QTD	YTD	Description
S&P 500 Index*	2.9%	-1.0%	-1.0%	Large-cap stocks
DJIA*	2.6%	-1.0%	-1.0%	Large-cap stocks
Nasdaq Comp.*	4.2%	-1.4%	-1.4%	Large-cap tech stocks
Russell 1000 Growth	3.4%	-1.1%	-1.1%	Large-cap growth stocks
Russell 1000 Value	3.2%	0.3%	0.3%	Large-cap value stocks
Russell 2000 Growth	4.4%	-0.3%	-0.3%	Small-cap growth stocks
Russell 2000 Value	4.6%	1.6%	1.6%	Small-cap value stocks
EAFE	-0.7%	-5.1%	-5.1%	Europe, Australasia & Far East Index

Lehman Aggregate	0.4%	1.9%	1.9%	U.S. Government Bonds
Lehman High Yield	0.2%	1.4%	1.4%	High Yield Corporate Bonds
Calyon Financial Barclay Index**	1.1%	-0.4%	-0.8%	Managed Futures
3-mo. Treasury Bill	0.0%	0.0%	0.0%	
<small>All returns are estimates as of February 26, 2010. *Return numbers do not include dividends. ** Returns are estimates as of February 25, 2010.</small>				

U.S. Aid Benefits Banks, Not Homeowners (Like that was a surprise?)

Government support for the economy has helped banks make all manner of windfall profits. But have outside 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.

On the Mutual Fund Front

Will '12b-1' Fees Ever Stop Bugging Investors?

Could the little fee that eats away at mutual funds finally disappear?

Earlier this month, Securities and Exchange Commission Chairman Mary Schapiro declared that "we must critically rethink how 12-b fees are used and whether they continue to be appropriate."

Roughly 70% of funds charge 12b-1 fees, named after the SEC rule that permits them. These charges help defray marketing and distribution costs, which might include commissions to financial advisors, processing and record-keeping in a 401(k) plan, mailing prospectuses, even advertising in The Wall Street Journal.

A 12b-1 fee also covers the costs of getting new investors to buy the fund, which is somewhat like paying a \$100 surcharge on a Chevy so General Motors can keep selling Chevys to other drivers.

Typically running \$1.50 to \$3 a year on each \$1,000 you've invested, 12b-1 fees sound tiny. But 12b-1s add up, big time. Since 1990, based on data from Lipper Inc. and the Investment Company Institute, investors have paid more than \$140 billion in 12b-1s.

What has that \$140 billion bought? Back in 1980, when 12b-1 fees were born, mutual funds were weathering a long winter. Stock and bond funds held less money than they had in 1971, and almost a third of all accounts had been closed.

So the SEC broke with legal tradition and permitted managers to charge shareholders a new fee. In theory, that would help retain existing investors and attract others, enabling funds to grow again and to achieve “economies of scale.” Fund investors would pay lower fees, while fund companies would have more money to manage.

In practice, however, fund companies began using 12b-1 fees to pay brokers a continuing stream of smaller fees instead of the traditional “sales load,” or one-time upfront charge, which in those days ran up to 8.5%. Funds got bigger, fund managers’ profits got fatter and investors got more confused.

Like Dr. Frankenstein haunted by his monster, the SEC has long seemed tormented by self-doubt over whether creating 12b-1 was a mistake. Reports by SEC economists in 1990 and again in 2004 found no evidence that 12b-1s were worth what they cost investors.

Will the agency seriously consider banning 12b-1s out-right? Andrew Donohue, the SEC’s head of mutual-fund regulation, won’t say. “We want to make sure investors are treated appropriately, not just at the macro level of the fund but also at the individual level,” he says. “When something is the functional equivalent of a sales load, maybe it should be disclosed and regulated that way.”

Keep in mind, brokers have to get paid somehow, “It’s not as if you can wave a magic wand and eliminate 12b-1 fees and then those expenses will be retained by investors in their own pockets,” says Paul Schott Stevens, president of the Investment Company Institute, the mutual-fund trade group.

Mr. Stevens argues that since 12b-1 fees are deducted out of the fund’s income, they should be viewed as a “highly tax-efficient” way to pay brokers. Of course, if fees ate up 100% of your return, you wouldn’t owe any taxes at all. Tax efficiency shouldn’t be the goad of 12b-1 reforms.

On Beyond Wealth.....

The greatest growth now may be among family offices, and multigenerational planning is just the beginning.

Or 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 to consumers with green and substantial numbers of it to seek the advice of a family office. Right now, 4,000 family offices with a combined \$1.05 trillion in assets are stealing green from financial institutions, 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.

The question is whether MFOs will continue to gain momentum. “We’re at the beginning,” says Bob Casey, director of research for the Family Wealth Alliance in Wheaton, Ill. One reason for the growth: Traditional players shot themselves in the foot. “Wirehouses and banks are just an unholy mess,” he says. “It’s been going on for a decade with all the mergers and so your trust officer changes every 12 months. If you’re well-heeled you say, ‘forget it. I don’t need this monkey business.’”

Winning Big Clients

Arthur Black, a principal with BBR Partners in New York City, broke away from Goldman Sachs in 2000 to create a multifamily office because he believed it was the way to win and keep big clients. His firm, which manages \$3 billion, now has 55 employees. Among them, two-thirds have expertise in legal, tax and accounting matters, and only one-third is focused on investment matters.

As with the term wealth-management, there is no bright-line test for calling a practice a family office. “Your problem-solving changes,” Black says. “Instead of going from point A to point B, there are three or four dimensions and everything is moving around.” Industry observers agree that MFOs must have expertise in multigenerational planning, setting up philanthropic foundations, services relating to owning big assets [such as mansions, yachts and jets] and the ability to coordinate legal, tax, insurance, estate and investment issues.

Family-office clients tend to have \$50 million or more to invest, according to Jeff Roush, former chief operating officer of MyCFO, a multifamily office originally founded by Netscape founder Jim Clark to manage his fortune and those of other Silicon Valley tech barons. (It is now Harris MyCFO.) Traditionally, a family office was the staff of experts put in place by plutocrats like the Rockefellers, Phipps or Carnegies to manage their personal financial affairs.

The lines between family offices and RIAs blurred in the late 1990s with the rise of MFOs, which found it expedient to pool the management of family fortunes. There are now about 3,000 MFOs that manage a combined \$750 billion, a number that outweighs the 1,000 single-family offices with \$300 billion, according to the Celent study. Family office assets represent 20% of the \$2.4 trillion of RIA assets, and 65.2% of family offices are organized as RIAs, according to the 2008 Family Wealth Alliance study.

Custodians' Role

Seeking to help push RIAs to the rarefied family office realm are custodians Schwab Institutional, Fidelity Investments and Pershing, which offer family offices improved support. Schwab, at the urging of its RIA clients, is creating ways to manage the blizzard of documents involved with multigenerational planning. “There is a major shift happening and we are right in the middle of it,” says Janelle Sallenave, head of family-office business at Schwab.

On Taxes.....

It is only fair that something should be mentioned about taxes at this time of the year.

One innocent slip-up on your federal income tax return could cost you time and money. Be sure to double check your return for these common mistakes:

1. Wrong Filing Status

You can only choose one filing status -- single, married filing separately or married filing jointly. What determines your filing status is your marital status as of year's end (either single or married). If you are married, it's your preference whether to file separately or jointly. (However, you and your spouse will need to agree on the filing status -- you can't file married separately if your spouse is filing jointly!) Mark the correct box accordingly, or it could cause you to be denied for tax credit claims such as the child or dependent care credit, earned income tax credit, etc.

2. Wrong Address

If you are submitting a paper return, it is best to use the peel-off label on the tax form you received in the mail. You can make corrections directly on the label. However, if you do not have a label or if there are too many corrections, make sure you clearly print your name, address and zip code on the return.

3. Incorrect or Missing Social Security Numbers

Your Social Security number is a crucial part of your federal income tax return. It corresponds with income reported as well as deductions and credits you are claiming. If you accidentally provide the wrong number, your claims could be denied, or at least delayed until you are able to make the correction with an amended tax return. In addition, the IRS can only verify someone you are claiming as a dependent if you include his/her correct Social Security number as it appears on the Social Security card. If there have been any name changes since you last filed a tax return, you should contact the Social Security Administration by calling 1-800-772-1213 or by going to its website at ssa.gov.

4. Unsigned Return

After doing all that hard work, don't forget the easy part -- signing the form! Neglecting this important last step could unnecessarily hold up your refund or, if you owe money, you will have to pay penalties and interest on your tax bill. If you are filing jointly, make sure that your spouse also signs and dates the return.

5. Math Errors

Use a calculator and go back over your return carefully to ensure that you have added and subtracted all those numbers correctly. While the IRS Service Center can, and often does, catch math errors and will make changes accordingly on your form, it's not guaranteed.

6. Tax Computation Errors

According to the IRS, in addition to basic addition and subtraction mistakes, filers often incorrectly compute their taxable income, withholding and estimated tax payments, earned income tax credit, standard deduction (for people age 65 or older or who are blind), taxable Social Security benefits and child or dependent care tax credit. Make sure you are using the correct column for the IRS tax table based on your filing status.

7. Incorrect Identification Numbers

If you are claiming a dependent or child-care tax credit, double check to make sure you have the right identification number(s) for the care provider(s).

8. Incorrect Financial Institution Information

If you are owed a refund and elect to have the funds directly deposited into your bank account, make sure that you provide the correct financial institution account and routing transit numbers, or your refund could be delayed or worse -- sent to the wrong taxpayer!

9. Undocumented Deductions

If you are filing an itemized return and claiming charitable contribution deductions, you will need written receipts for each donation verifying the date, contribution amount and name of the nonprofit organization you supported. Other common deductions for which you will need receipts include mortgage interest, property taxes and medical expenses (if they exceeded 7.5% of your adjusted gross income).

10. Wrongly Claiming -- or Forgetting to Claim -- Credits And Rebates

In addition to standard tax credits such as the Earned Income Tax Credit (EITC), each year there are new credits, rebates and deductions for which you may qualify. Last year's top tax-filing mistake was wrongly accounting for the 2008 recovery rebate. Over 2 million tax filers either didn't include the rebate on their return or entered the wrong amount. This year, millions of tax filers will be able to claim the Obama Administration's "Making Work Pay" tax credit that was extended under the 2009 American Recovery and Reinvestment Act (ARRA), as well as the First-Time Homebuyer Tax Credit. If you think you may qualify for a credit or rebate, check the IRS website to find the appropriate form, or consider using tax preparation software that can walk you through a checklist of potential benefits.

Conclusion

You can reduce the likelihood of making tax mistakes by filing electronically through the IRS website or by using tax preparation computer software that can help you avoid, or correct, common errors. Finally, remember if you do not file a return and claim your refund on a return after five years from due date, the U S Treasury keeps it.

Medicare Costs More-for Some

Some Medicare beneficiaries are finding their 2010 premiums which they thought would be frozen at 2009 levels are actually jumping 15%.

The hike affects individuals who have heeded the advice of experts and waited to claim Social Security benefits until they reach full retirement age, as the federal government defines it.

The increase results from a little-noticed intersection between rules governing Medicare and Social Security, two of the country's largest entitlement programs.

Under the Social Security Act's "hold harmless" provision, Medicare can't pass along to Social Security recipients a premium hike that's higher than whatever they would receive through Social-Security's annual cost-of-living adjustment, according to Mark Lassiter, a Social Security Administration spokesman in Washington D. C.

With no Social Security increase expected for 2010, Medicare can't charge beneficiaries who are also Social Security recipients any extra premium.

The Department of Health and Human Services sets the standard premium each year for Medicare Part B, which mainly helps pay for doctor visits and other outpatient treatment. Premium revenues are supposed to cover about 25% of the average cost of Medicare Part B services incurred by enrollees age 65 and older.

Of the 42.3 million Americans covered by Medicare Part B, some 73% also receive Social Security meaning the remaining 27% of Medicare beneficiaries must make up the difference by paying higher premiums.

"The Part B premium increase is higher than it would be otherwise because the costs are spread across a smaller share of beneficiaries," according to a Kaiser Family Foundation report.

The affected beneficiaries include the 3% of Medicare Part B recipients who are celebrating their 65th birthday this year, along with the 2% who haven't started collecting Social Security yet mainly because they haven't reached their "full retirement age" the age at which older adults can receive 100% of the Social Security benefit to which they are entitled. For people turning 65 in 2008 through 2019, full retirement age is 66.

Assuming that Social Security payments increase in 2012. Part B premiums for everyone would reset at \$111.50 (or more for higher-income enrollees).

Last year, HHS supported a bill that would have eliminated the higher premiums for Part B enrollees not covered under the "hold harmless" provision. The bill passed in the House but stalled in the Senate.

Such enrollees include both higher-income individuals who are subject to larger monthly premiums, and lower-income enrollees whose premiums are paid by Medicare and Medicaid, the state and federal-funded health program for the poor.

For example, someone getting \$500 a month in Social Security in a year with a 1% cost-of-living adjustment for an additional \$5 a month in additional Medicare Part B premiums if the cost were to increase.

On the Economic front.....

Although economic data are seasonally adjusted, weather variations in the first quarter have more impact on the economy than in other quarters. For example, snowstorms keep people at home, and they reduce production. A hotter summer can affect the economy by increasing electricity usage or keeping people off the golf course, but it doesn't usually keep them in the house or away from work. Construction is the sector most sensitive to severe weather during the winter months, which was undoubtedly partly responsible for the weakness in home sales and starts in January. The incoming data suggest the economy has cooled off after a hot fourth quarter, but whether the cooling is just a result of weather — in which case it will warm up in the spring — or is more fundamental won't be clear until we see the spring data.

Meanwhile, have a great month, enjoy the spring weather, especially in the Midwest, and see you next month.



Timothy T. Fullerton, Sr.



Mary Ahart

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