



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

"Real People provide Real Service"

October, 2011



Well the damage control is still not on track, so fall is looking great for color, but not for the economy. Europe is still out to lunch on all counts, China is grabbing everything it can find while fixing its currency against the rest of the market. That can last for only a short time longer. The political scene is shaping up as incumbent versus unknowns. Ben Bernanke is struggling to be all to everyone, while Washington stays busy worrying about who is President. Meanwhile, the economy is sucking wind and will probably be there until the automatic cuts come in November when the Committee of Twelve fail to find agreement on cuts and tax changes.

Eric Cantor, Majority Whip in the House echoes the sentiment of the Republican Party. Obama does not have a job proposal, and when Obama sends a job bill to the House, Eric Cantor, instead of recommending a change to keep the ball rolling forward, predicts that the bill is dead on arrival. If you are a fond admirer of Eric, you need some attitude adjustment on whose backyard you are playing in. Last I checked, it was called America.

Warren Buffett is safe in asking for new taxes. Who is minding the store in Washington? The Tea Party. His was a great PR statement. Why? There is no one home in Washington. Bottom-line, who cares who is President? You can get Congress to act competently anyway. The parallel to the Great Depression is becoming sharper every day. Calvin Coolidge started the debacle as a landlord President. Obama is slipping into that role. Then Herbert Hoover, a Republican came in created the mess that we remember. Then FDR came along and changed the landscape and so many fronts. We managed to live with most of that structure until today.

Now our ties have become global and the clean up of this mess just got messier. Europe is a drag on markets, Congress has no idea how to approach this and as has been the case in the past, Tammany Hall becomes the fad. We stand in a circle and blame the person behind us. Someone needs to come along and break up the stalemate before we become apart of the machinery that we created in China. So pay homage to the Presidential dance, but stay very close to the next Congress person being elected in your district. If they promise the moon, run for the exits before the smell catches up with you.

From the market analysts comes the following....

Market Effects of Client Dismay With D.C.

After spending most of the last two weeks talking to clients, one thing is crystal clear: their disappointment with Washington. Although the European debt crisis, the slowdown in emerging markets and concerns of a double-dip recession are still in people's minds, few clients believe that the legislative or executive branches of the U.S.

government either understand or can successfully manage the domestic economy.

This mindset has resulted in lots of nervous investors trimming positions in front of the fourth quarter. Equities had a terrible month, the greenback and U.S. Treasuries were beneficiaries of panic buying, and credit spreads ballooned. During most of this debacle, many investors believe that President Obama was an absentee landlord.

Folks seem to have keen memories of 2008 and what it did to their hard earned savings. They seem willing to slash positions and don't seem concerned about missing gains if things get better.

Keep your finger on the rebalancing button, for starters, and take advantage of the current dislocation between equity and fixed income markets. Drop the Long Term Hold strategy.

As mere stewards of wealth, we cannot control the direction of the markets. But we can communicate more, allocate more intelligently, and do what we can to prevent another "lost decade" of investing opportunities from occurring.

THE MONTHLY INDEX REPORT FOR SEPTEMBER 2011				
Index	Sept. 2011	QTD	YTD	Description
S&P 500 Index	-7.0%	-13.9%	-8.7%	Large-cap stocks
DJIA	-5.9%	-11.5%	-3.9%	Large-cap stocks
Nasdaq Comp	-6.3%	-12.7%	-8.3%	Large-cap tech stocks
Russell 1000 Growth	-7.4%	-13.1%	-7.2%	Large-cap growth stocks
Russell 1000 Value	-7.6%	-16.2%	-11.2%	Large-cap value stocks
Russell 2000 Growth	-11.5%	-22.2%	-15.6%	Small-cap growth stocks
Russell 2000 Value	-10.9%	-21.5%	-18.5%	Small-cap value stocks
EAFE	-9.5%	-19.0%	-14.6%	Europe, Australasia & Far East Index
Barclays Capital U.S. Aggregate	0.7%	3.8%	6.6%	U.S. Government Bonds
Barclays Capital U.S. High Yield	-3.3%	-6.1%	-1.4%	High Yield Corporate Bonds
Calyon Financial Barclay Index*	0.2%	2.0%	-2.1%	Managed Futures
3-month Treasury Bill	0.0%	0.0%	0.0%	

*All returns are estimates as of 9/30/11; Return numbers include reinvestment of dividends.
Returns are estimates as of 9/29/11.

On a local front,

the new tax bills for Cook County, Illinois are out. Look in the lower right corner of the bill for homeowner's exemption. If you are a homeowner, you should have something greater than zero. Then the Senior Exemption rule has been changed. Assessor Berrios figures on collecting more taxes by making all senior citizens revert to age 64 every year. This exemption needs your attention every year regardless of your age. This year, Berrios will make over 15,000 seniors pay more taxes due to this change. Then the Senior Freeze for those under \$55,000 in income should have a number greater than zero. This has been manipulated by the Assessor's office. You will get the choice of Long Term Homeowners exemption forms or Senior Freeze. Then the Assessor will send you a form letter stating that you will have a more favorable treatment with the Long Term Homeowners exemption. Then the bill will not show either credit. You will need to contest this failure. It appears to be a deliberate action on the part of the Assessor's office.

On the Stock front....

Five stocks to follow out of a recession.

Caterpillar (CAT): Analysts like Caterpillar's exposure to mining and international operations. These aspects of CAT's business give the Dow component an edge over names like Deere (DE).

Amazon (AMZN): Economic downturn? Not a problem for Amazon as they win either way. If we avoid recession, all retailers will benefit. If not, analysts say "the fact that people are going to try to save money is going to outweigh

anything else." Amazon is the best retailer operating today. If folks are buying stuff at all on the Internet, they'll probably buy it on Amazon.com.

McDonald's (MCD): Consider the issues with food content, it is surprising that this company holds its own. The company is just that good. Analysts agree, a fact that reduced the McDonald's discussion to little more than a fan fest.

Apple (AAPL): There is no real debate concerning Apple's trailing performance. They've been the best corporation in the world for several years. Yes, even better than McDonald's. The fate of Apple's stock from here depends almost entirely on new CEO Tim Cook's ability to spearhead creative product initiatives not already in the pipeline. Meanwhile, the established pipeline has an 18 to 24 month life. Analysts say Jobs' handpicked successor has the right stuff.

Google (GOOG): Analysts think the search king will be able to expand its empire. The potential of the acquisition of Motorola's patent portfolio expands Google's reach into the Smartphone market in a more lucrative way. The question with Google is never about cash flows, it's about expansion opportunities. Analysts like their chances.

There you have it. Five stocks from only loosely related industries. The commonalities are strong management and a record of generating strong returns for shareholders. Not advice per se, but simply ideas to consider during these rather challenging investing times.

A Trustee's Survival Guide

Do's for Heirs and Trustees. Estate and trust advisers say clients should heed these tips

DO

Read the trust instrument. Then read it again. Then read it one more time

Ask the trustee reasonable questions about the trust, the trust investment strategy, and what you (and cannot) expect from the trust and from the trustee.

Communicate openly with the trustee about your needs, and be prepared to provide documentation of your needs and your financial situation to the trustee.

Seek the advice of your own counsel experienced in trust and estate matters if you don't feel that your needs are being met or if you have unresolved concerns or questions about the trust.

Charitable Contributions From Your IRA in 2011

With the passage of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (Tax Act 2010 or 2010 Tax Act), Congress retroactively reinstated the ability to make direct charitable distributions (QCDs) from your IRA, in amounts up to \$100,000 by IRA owners who are at least 70 ½ years of age.

This provision expired at the end of 2009, but is once available, retroactive to January 1, 2010, through December 2, 2011.

The provision allows the individual, age 70 ½ and thus subject to Required Minimum Distributions (RMDs), to make contributions directly from an IRA to a Qualified Charity, in an amount up to \$100,000 per year.

This means that the IRA owner who doesn't need his or her RMD for income and direct the distribution to the charity of his or her choice. In addition, he or she will not have to recognize the distribution as income for determining Adjusted Gross Income (AGI) or any modified AGI calculations. Remember, you don't get a charitable deduction on Schedule A for this treatment. But the avoidance of the \$100,000 from your income calculations is well worth the loss of the deduction which would only to the extent of 50% of adjusted gross income anyway.

Dangers in using IRAs for business startups

The IRS is continuing its scrutiny of 'Robs' arrangements, so advisers should warn clients away

When the Internal Revenue Service names a transaction "Robs," that can't be good. The acronym tells us how

unfavorably the IRS views these “rollover as **business startup**” transactions, especially if they appear to be designed to side-step the tax in individual retirement account distributions.

Some background: On Aug. 27, the IRS held a telephone forum dealing with tax avoidance transactions and employer plan compliance issues that may threaten retirement security. During the call, Monika Templeman, director of employer plan examinations, and Colleen Patton, an area manager for the Pacific Coast, addressed a number of areas that present growing concerns to the IRS.

Robos were one major area of concern. Before we get to the agency’s concerns, let’s look at these transactions.

At the heart of a Robos transaction is the premise of using one’s own retirement assets to start a business without paying taxes on the money. Here are the basic steps:

A new business owner has available funds in a retirement account (an IRA, for example). While this isn’t an action step, it is a critical part of any Robos transaction no retirement account, no Robos.

A new company and a new plan are established. The entrepreneur creates a new business, which then adopts a qualified plan, such as a 401(k). The plan’s provisions are drafted so that they allow both the purchase of shares of the new company’s stock and the ability to roll in money from existing retirement accounts.

The rollover is completed. The business owner takes his or her existing IRA (or other rollover-eligible account) and rolls it into the newly established plan at the new company.

The IRS has increased their scrutiny of this action to insure that all the steps of the transactions are code compliant.

Dividends: Collect, Reinvest, Repeat – for Decades

The market storm of the past few months has produced a bright side: dividend yields are on the rise.

For long-term investors, that might be reason enough to put spare cash to work now. Everyone loves price appreciation when it happens but even sleepy stocks that seem to go nowhere can pay off nicely given the combination of dividends, reinvestment and time.

Dividend yields are simply a company’s annualized payment divided by its share price. So when share prices fall, yields rise (assuming dividend payments stay the same).

That is precisely what has been happening lately. The MSCI All Country World Index dropped 12.1% during the third quarter through Thursday and carried a 2.9% dividend yield, up from 2.5% at the end of the second quarter. MSCIs All-Country Europe index, which tumbled 18%, now pays 4.0%, up from 3.5%.

Even in the U.S., where yields are much stingier, the Standard & Poor’s 500-stock index now yields 2.1%, up from 1.8%. And a quarter of its members pay more than 3%.

To see how dividends can add up, consider New York’s power company, **Consolidated Edison Inc.** It is old economy, to say the least: One of its predecessor firms, New York Gas Light Co., was listed on the New York Stock Exchange 23 years before Thomas Edison was born.

Today Com Ed has single-digit sales growth and its shares are one-fifth as volatile as the broad U.S. market. (Yawn) Over the past decade, its stock price has only slightly outpaced inflation. But with reinvested dividends, shares returned 128%. The S&P 500 returned 33% over the same period with dividends reinvested.

Plenty of big dividend payers have performed better than Com Ed over the past decade, assuming reinvestment. Oil producer **Chevron Corp.** has returned almost 200%, while **Altria Group Inc.**, the U.S. tobacco giant, has returned more than 300%.

What do the aforementioned companies have in common, besides their dividends? They are slow growers. That sounds like a negative, but slow growth can bring two benefits. First, a limited need to spend on expansion allows such companies to boost dividends as profits rise. Com Ed, for example, has increased its dividend for 37 consecutive years.

Second, a lack of attention from growth-obsessed investors tends to keep stock like these from reaching bubbly levels. That means investors generally can reinvest their dividends at fair prices.

Together, those traits can present ideal conditions for something even more impressive than the compounding power of interest: the compounding power of dividends. Dividend payments, after all, sometimes grow.)

To some investors clinging to memories of a booming stock market, dividend-collecting might sound boring. But there are two good reasons to believe that boring will outperform in coming years.

First, stock returns don't typically consist of exciting price gains with dinky dividends tacked on. Over the eight decades ended September 2010, dividends contributed 44% of S&P 500 total returns, according to research by Fidelity Investments. And that includes a long, anomalous stretch during the 1980s and 1990s, when valuations bloated and yields shrank. During the 1970s, when returns averaged 5.9% a year, dividends contributed 71% of that figure.

Second, from here, broad market returns might be smaller than investors are accustomed to. Bradford Cornell, a finance professor at the California Institute of Technology who specializes in valuation, argued in a paper published last year in the Financial Analysts Journal that stock returns are inextricably tied to economic growth, which is necessarily slowing around the developed world. Stock investors, he says, should expect to collect their dividend yields plus about 1% a year in price gains after inflation.

The good news is that more S&P 500 companies have raised or initiated dividends this year through August than during the same period in any of the past seven years. They have plenty of room for more increases; payments are less than one-third of profits, a historic low.

To find companies that might possess that newly alluring combination of slow, steady growth and rising dividends, a good starting point is S&P's Dividends Aristocrats list. These are S&P 500 members that have increased their payments for at least 25 years running. There are 42 altogether, and 15 of them pay at least 3%. In addition to Con Ed, these include **Johnson & Johnson**, **Emerson Electric Co.**, **Pepsico Inc.** and **Procter & Gamble Co.**

For exchange-traded-fund investors, the PowerShares Dividend Achievers Portfolio consists of companies that have raised their payments for at least 10 consecutive years. Wal-Mart Stores Inc. is its biggest holding. The fund yields 2.6% and has annual expenses of \$60 per \$10,000 invested. The Vanguard High Dividend Yield ETF is focused on yield and not payment growth, but it holds plenty of consistent dividend boosters just the same. Its biggest holding: Exxon Mobil Corp., which has increased payments by an average of 5.7% a year

FOUR THINGS ABOUT WOMEN AND INVESTING.

1. Women need to know if they have enough money

"Women are far more likely to make a testamentary gift than a lifetime gift." They're afraid to give until they're sure they have enough for themselves, even the women who have plenty of assets. The first thing a woman must do to be generous is to be selfish. Until she knows what she's got, how long it's going to last, and what she needs, she can't be generous."

2. Women have different reactions to risk

"Men tend to react to a threat with anger, which is motivating and empowering. Women tend to react with fear, which is disempowering and paralyzing.

3. Women react differently to stress

"When men are stressed, they fight or flee. Women under stress gather with other women and try to protect their family. Our stress patterns may be negative when it comes to money, but we're the ones who have good support networks."

4. Women want to understand before they act

“When I got into the business [at a brokerage firm], I knew nothing about investments. I just listened and observed, and I made an assumption that the men knew what they were doing. After being there a while, I realized that most of them did in spite of how little they knew.”

S&P Projections

TARGETS

12-Month S&P 500	1260
S&P 500 EPS 2011	\$99.61
S&P 500 EPS 2012	\$111.29
June 2012 S&P Euro 350	1150
Year-End 2011 S&P Asia 50	3700
Year-End 2011 Emerg. Markets	1100
Fed Funds Rate Q4 2011 Avg.	0.1%
10-Year Note Yield Q4 2011 Avg.	2.2%
Real GDP Growth 2011	+1.6%
Real GDP Growth 2012	+1.9%

PIMCO Total Return Fund

Any story about well-known funds would not be complete without mentioning the PIMCO Total Return Fund. (We are looking at the institutional shares, since they are the oldest share class.) The fund now has numerous share classes and related funds, and is expected to launch an exchange-traded version soon as well. PTTRX's portfolio had, as of September 29, over \$245 billion in total assets, making it the largest U.S. mutual fund. Over the trailing three-year period, the fund has beaten its Taxable Fixed Income – Intermediate Investment Grade Debt peer group by about 135 basis points on an annualized basis through September 29. However, it has lagged by that same amount over the past 12 months, and its 30-day SEC yield of 2.3% is roughly in line with the 2.6% peer average. The fund's risk considerations and cost factors scores are favorable. We view manager William Gross's long tenure as a positive, as well as PTTRX's below-average standard deviation. However, the portfolio of turnover of 430% is well above the group's average of 280%.

So, here's to a brighter October and a long Fall in the Midwest. Have a great month, enjoy the colors and we will see you in November. You can find us on Facebook and Twitter.



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.