

THE PRETIREMENT PRESS



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Markets

Is The Roller-Coaster Ride Over?

The first quarter of 2008 was one of the most volatile on record for US financial markets. The broad US stock market (as measured by the S&P500 index) lost 10% during Q1, but what's more amazing is that more than 50% of the trading days of the quarter saw 2% swings from the low of the day to the high of day. Virtually every market pundit is either extremely bullish, predicting new all-time highs by year end, or extremely bearish, predicting Great Depression v2.0. These extremes in sentiment have markets reacting sharply to each bit of economic news, with bulls searching for a bottom in housing and financials, and bears looking for more evidence of high inflation or a deep recession.

So, which way will things go? We've definitely seen an easing of tensions in the banking system over the past month, mostly due to prompt action by the Federal Reserve. With the odds of a

Tax Stimulus Updates

Now that you've completed your 2007 taxes, you can use your tax return to determine if you're eligible for the tax rebates associated with the Federal Tax Stimulus. Simply go to <http://www.irs.gov/app/espc/> and follow the on-screen instructions.

If you are eligible, and you received a refund for Federal tax in 2007, and you selected direct deposit for your refund, your stimulus check will be direct deposited between 5/2 and 5/16. If not, your check will be mailed between 5/16 and 7/11. To see the detailed schedule of payments based

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banking system failure back to their infinitesimal norms, the concern now is over the broader economy. Housing is likely to continue to slump, with foreclosures climbing and inventories of unsold homes still hovering near 10-months of supply. Commodities are our biggest concern, with oil spiking to near \$120 / barrel and gasoline hitting a national average of \$3.50 / gallon recently. As if \$120 oil wasn't enough of a problem, the dramatic pace at which it has increased over the past 12 months seems destined to shock either corporate profits or the consumer's pocketbook. The saving grace for the stock market is that valuations are fairly low by historical

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on the last two digits of your SSN, goto <http://www.irs.gov/irs/article/0,,id=180250,00.html>

If you do your grocery shopping at Kroger and you receive a tax stimulus rebate, you'll be able to immediately make 10% on your rebate by purchasing one or two \$330 gift cards from Kroger for \$300 each. We expect that other retailers may follow suit with tax stimulus rebate promotions starting in mid-late May.

For more information on the Tax Stimulus plan, go to <http://www.irs.gov/irs/article/0,,id=177937,00.html>.

Tax Spotlight

Changes For 2008

With another tax season behind us, we now shift attention to the tax law changes that will affect your taxes for 2008. We've compiled a list of biggest changes likely to affect the greatest number of people so that you can be aware of those items that might effect how you earn, invest, or spend your money this year.

1) IRA (traditional and Roth) contribution limits have increased to \$5,000 for 2008. Please note, there are eligibility requirements concerning the amount of income you make and whether or not you are participating in another retirement plan

The PWA Top 10

Things To Do With Your Tax Refund

Between standard refunds for overwithholding and the Economic Stimulus Act rebates, millions of Americans will receive refund checks this year. Instead of leaving those funds in your zero-interest checking account, here's our Top 10 things you can do with your refund/rebate:

1) Pay down any debt (including a second mortgage) with an interest rate that is higher than what you target as a return on your investments. If you don't know what you should be targeting, 8% is a good cutoff. "If the rate is more eight, then don't wait." Pay it off now.

2) Build an emergency fund of 3-6 months of expenses. Use an online account to save the cash as these usually have higher interest rates than traditional banks. Take a look at Paypal, HSBC-Direct, First National Bank of Omaha, and ING Direct.

3) Contribute it to a Traditional or Roth IRA (if you qualify) to help fund your retirement.



It's never too soon to start thinking about next year's taxes

that may limit your ability to contribute to a traditional or Roth IRA. Discuss it with your advisor before contributing.

2) The "Kiddie Tax", which is the additional tax charged on the investment income of minors (at the parents' rate) now applies not only to children 18 or under, but also those age 19-23 if the child is a full-time student and his/her earned income does not exceed 50% of the support received from the parent.

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4) Spend part of it on something for you or someone you love. Life isn't all about saving for later and it helps to rationalize savings / investment plans if you enjoy some discretionary spending in the present.

"Most importantly, if you're receiving a large tax refund, review your withholding with your advisor."

5) Start or top-off that educational fund for your children (or future children's) college education.

6) If you don't need it over the short-term, invest it to fund your longer-term goals. US Stocks are almost 15% off their highs set in mid-2007 giving you an opportunity to get more money into the market at lower levels.

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Hidden Gems:

Muni-Bonds

Municipal bonds (a.k.a. “Muni Bonds”) are debt obligations issued by states and municipalities to fund ongoing government operations, programs, or special projects. They act just like corporate bonds in that an investor lends money to the issuer in return for the right to receive a fixed interest payment at pre-set intervals. The issuer also promises to repay the principal amount lent to them at the end of the term of the bond.

An advantage of muni bonds is that the interest they pay is tax-free to the investor. Because of this, interest rates are typically lower than taxable bonds, thereby allowing the municipality to borrow money at a cheaper cost than in the corporate bond market.

In the early part of 2008, some municipal bonds were paying interest rates that were very close to that of essentially equivalent taxable bonds. For investors in a high income tax bracket, this presented a huge opportunity to invest in muni-bonds and receive a higher after-tax yield (interest payment percentage) than the general market was paying at the time.

In Focus

Alternative Minimum Tax (AMT)

We’ve received numerous questions over the past quarter about the alternative minimum tax and would like the opportunity to describe it to all our clients in layman’s terms. Once upon a time, there were so many opportunities to take tax deductions that Congress became concerned that ultra-high-income individuals could use those deductions to pay a lower effective tax rate than low and middle income taxpayers. To correct this problem, Congress instituted a second, parallel tax system called the alternative minimum tax. This new tax



A municipal bond is an interest-paying debt obligation of a state or municipality that is exempt from most Federal income tax

Example:

Investor in 33% marginal tax bracket has been investing in AA-Rated 10-year corporate bonds yielding 5%. On an after-tax basis, this translates to a 3.67% yield because the bond interest payments are taxable. Early in 2008, the same investor may have had the opportunity to invest in a AA-Rated 10-year municipal bond yielding 4.5%. On an after-tax basis, this translates to a 4.5% yield because the muni bond interest payments are not taxed.

This is a strategy we have been using for our high-income clients, and while the yields on munis have come down in the past month, there are still some opportunities to take advantage of. These are the kinds of investments we’ve described when speaking of targeted investments that present opportunities for better than market returns or lower than market risk. They are part of the way that we add value, and we’re always on the lookout for opportunities such as this.

system would have a smaller set of deductions that could be applied to income, but a higher exemption amount that applied to everyone’s income. In this way, people with lower incomes would not be affected by the AMT because their income would be exempted from it. Those with higher incomes would get the exemption, but still have sufficient non-exempt income. With fewer deductions allowed than in the standard tax system, the AMT would apply. Congress decided that taxpayers

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measures and that interest rates remain low, which tends to provide an incentive to enter the stock market rather than sitting on a low-interest money market account or other fixed income holdings.

Our view is that neither of the two extremes are likely and that we'll come in somewhere in between jubilation and catastrophe in 2008. Short-term, despite the recent snap back in the market, we believe there could be another shoe to fall for the economy as the weakening consumer takes its toll on retail and the weakening corporate outlook takes its toll on capital spending. However, as all other economic cycles have previously shown, we believe this is

"If commodity prices continue their parabolic rise, a US recession could be deeper and longer than we're currently anticipating."

temporary and that the latter part of 2008 will begin to signal a turnaround as fiscal and monetary policy changes take hold. The one caveat is that if commodity prices continue their parabolic rise, a US recession could be deeper and longer than we're currently anticipating. In the meantime, our best advice is continuing to stick to your plan and let the market iron itself out over the long term.

Tax Changes from page 2

3) For those individuals who are in the 10 or 15% Federal income tax bracket, the long-term capital gain tax rate and dividend tax rate are 0% in 2008.

4) The AMT will be rearing its ugly head again in 2008. The law for 2008, as it is currently stated, would significantly reduce the exemption amount under AMT. For more info on the AMT, see the In Focus: Alternative Minimum Tax section of this newsletter.

5) The Social Security wage limit has increased to \$102k. This refers to the cap on the 6.2% FICA tax you pay as an employee.

6) Personal exemptions (the amount deducted from your income per person and dependent in your family) is increased to \$3,500 per person.

7) The standard deduction has increased to \$5,450 for single filers and \$10,900 for married filing jointly. Unless you have itemized deductions (mortgage interest, investment expenses, charitable contributions, non-federal taxes paid, some medical expenses, and miscellaneous deductions) greater than this amount, you will be taking the standard deduction which means you lose the incremental benefit of the itemized deduction.

8) The deduction for business mileage has increased to 50.5 cents per mile. If you use your car for business purposes other than commuting, you may be eligible to deduct this amount. Reduced mileage deductions are allowed for driving while performing charitable duties and while traveling for medical reasons.

As always, you can find all the key tax numbers for 2008 on the PWA Website under the Resources tab.

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- 7) Buy a fireproof safe for your home and put your important documents and backups of your electronic documents (DVD / flash memory) in it.
- 8) Take a class. Invest in yourself and your future earning potential.
- 9) Buy a sturdy folder and write the words “Tax Year 2008” on it. As you get receipts, statements, etc. that are tax-related through the year, put them in the folder so that when tax time comes, you’re already organized. Keep it in your fire-proof safe.
- 10) Donate it to charity (if you itemize your taxes) and get a jump on your deductions for next year.

Most importantly, if you’re receiving a large tax refund, review your withholding with your advisor. Getting a big refund means you’re shorting yourself through the year and providing an interest-free loan to Uncle Sam! Better to get that cash and invest it yourself.

PWA News

Here’s a sampling of what we’ve been up to at PWA over the course of Q1 and heading into Q2:

- After completing the education, examination, experience, and ethics requirements set forth by the CFP Board, our president, Tom Nardozi, is now a CERTIFIED FINANCIAL PLANNER™.
- PWA is now registered in Minnesota as well as Georgia, meaning that we are able to serve an unlimited number of clients in both states. We remain able to serve up to five clients from each other U.S. state, and as necessary, we will register in additional states to serve our clients.
- By popular demand, we are now able to accept credit card payments through a secure website (processing fees do apply). If you are

AMT from page 3

would pay whichever tax was higher, the standard tax or the alternative minimum tax.

AMT effect on high and low income taxpayers

	Low Income Taxpayer		High Income Taxpayer	
	Standard Tax	AMT	Standard Tax	AMT
Gross Income	\$ 40,000	\$ 40,000	\$ 500,000	\$ 500,000
Deductions	\$ 6,000	\$ 3,000	\$ 300,000	\$ 100,000
Exemptions	\$ 10,000	\$ 45,000	\$ 10,000	\$ 45,000
Taxable Income	\$ 24,000	\$ -	\$ 190,000	\$ 355,000
Tax	\$ 3,000	\$ -	\$ 47,000	\$ 99,400
	Pay This Amt			Pay This Amt

While the intent of the tax makes logical sense, the implementation doesn’t because the exemption amount was not set to be adjusted for inflation. So, as incomes rose for the middle class over time, more and more people were impacted by AMT. In each of the past few years, Congress has passed a one-year increase in the exemption amount, but has not fixed the long-term problem. This is what frequently makes its way into the press toward year end as Congress is once again faced with patching or fixing the system (a practice that will no doubt occur again in 2008).

interested in paying an invoice by this method, please let us know and we will send instructions.

- We are now serving 22 clients, located across 8 states, with a combination of comprehensive financial planning, asset management, decision support, and tax prep services. We are managing just over \$1.5M in assets for our asset management clients.
- We are continuing our referral program, paying \$100 for qualified referrals who become and remain a PWA client for at least one year. In order to participate as a referrer, clients must sign a Solicitation Agreement. If you’re interested, please contact us and we’ll send you the paperwork.

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*PWA's president, Tom Nardozi, is
now a CERTIFIED FINANCIAL PLANNER™*

- We are in the process of developing our “Founding Client” Program. This program will serve as a thank you to our initial set of clients who helped to build PWA into what is today. While program services and benefits will be released in the coming months, we can list one important benefit at this time. As our client list grows, and now that our president, Tom Nardozi is a CFP®, we intend to raise our fees closer to (but still below) the market norm for financial advising. If you are part of the Founding Client program, we commit to maintaining your current fee level for at least one year beyond the date that fees are adjusted for new clients. Additionally, we will always provide you with a discount to our current published rates for new clients for as long as you remain a PWA client. All of our current Planning and Asset Management clients will automatically be enrolled in the program. Additional clients will be enrolled “while supplies last”. That is, we will only be offering Founding Client status to our first 20 asset management clients. Spread the word if you have friends or family that are interested in becoming a client, but haven’t had the time to get started yet so that they can take advantage of Founding Client status.

The Pretirement Press is a PWA’s quarterly newsletter to clients. If you have comments or suggestions for future newsletters especially items you’d like to see in the In Focus section, please contact us at newsletter@perpetualwealthadvisors.com. If you’re not a PWA client, but received this newsletter and would like to be on our mailing list, please send an email to subscribe@perpetualwealthadvisors.com with Subject Line: Add Me. As always, if you or someone you know are interested in PWA’s comprehensive planning, asset management, decision support, or tax prep services, please contact us to set up a free consultation. It’s a small amount of effort to start down the journey to perpetual wealth.

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