



PLANNED FINANCIAL
services

Your life. Your money. Your way.SM

www.PlannedFinancial.com

Frank Talk 4th Quarter Newsletter

October 2011



Table of Contents

1

Editorial
Frank Fantozzi

2

Rebalanced Your Portfolio,
Recently?
Sarah Horriqan

3

Playing Catch-Up With Your
Retirement Savings
Walt Moore

4

The New Estate Tax Regime
Jeremy Bok

5

The Brighter Side of Capital Losses
Frank Fantozzi

Dear Clients and Friends:

Continued concern over the debt burden of the developed world combined with the deeply divided political landscape in Washington, D.C. has many investors questioning the sustainability of the economic recovery following the Great Recession of 2008. Growth has slowed and we believe the chance of revisiting a recession has increased to approximately 35%. However, the most likely scenario remains that global growth will continue at its modest pace, which could offer an upside surprise for an increasingly bearish-biased market.

While these volatile markets are sending many investors scrambling for a rock to hide under to wait out the uncertainty, I believe turning over those rocks in search of investment opportunities may prove fruitful over the long term. Fear and emotion oftentimes defines short-term market reactions. However, when fear is at its pinnacle, a patient temperament, faith in your investment plan, and a commitment to opportunistic investments can ultimately turn short-term market challenges into long-term investment success.



Frank Fantozzi, President
CPA, MT, PFS, CDF, AIF
LPL Investment Advisor
Representative

One does not have to go far into the history books to find two periods where short-term fear transitioned into investment triumphs. Today's investment environment is causing investors to face similar challenges to those that haunted them in 2008 and again during the summer of 2010. In both of those periods, prices had declined further than their fundamental values and proactive policy action by central banks served as the catalyst to lure opportunistic investors back into the market. I believe that the same environment exists today and the same elixir is needed for these uncertain times.

The crowded trade certainly remains bearish, but policy actions to stoke the economic growth fire have begun again in earnest. The Federal Reserve Bank recently announced that they will provide additional stimulative monetary policy through Operation Twist. Moreover, many central banks around the world that had been intentionally slowing their country's growth in an attempt to head off inflation are now switching from the brake to the gas

"We remain committed to keeping you informed on financial market activity and firm news so you can make better decisions as they relate to your family and business. Remember, it's not just about your Rate of Return, it's about your **Return on Life™.**"

pedal to provide more stimulus to jump start growth and the stalling global economic recovery.

The market appears to be suffering much more from a lack of clarity and a wave of uncertainty than it is a degradation in economic fundamentals. While growth has undoubtedly slowed, most corporations are still on pace to post near-record third quarter profits, business spending continues to be strong, and retail sales remain positive. In fact, buoyed by surging auto production and sales following the disruption caused by Japan's springtime natural disaster, economic growth this quarter for the United States may be poised to not only be the fastest of the year, but also to be faster than the first two quarters of the year combined.

Despite this modest and far from disastrous outlook, uncertainty has outweighed optimism and question marks have outpaced clarity. The market is essentially suffering from a recession of confidence. With the mood decidedly bearish, the market does not believe in this recovery and investors do not have faith that policy makers can avert the second recession in three years. But, it is fear and emotional disbelief that often serves as the catalysts to lower expectations—and stock prices—to levels that even market bears see the value of owning. While the market still faces a challenging environment and has a wall of worry to overcome, I believe that patience and a vigorous commitment to your

investment plan is the best strategy to weather this bout of uncertainty and serve as yet another example of the resiliency of the markets, the global economy, and American business.

We remain committed to keeping you informed on financial market activity and firm news so you can make better decisions as they relate to your family and your business. As always, please call Jeremy, Walt, Sarah, or me with any questions or concerns. We value your input, but most importantly, we value our relationship as your wealth advisor. If you know of someone who can benefit from our services or a second opinion, please let us know.

Thank you for your trust and confidence. We work hard to earn it every day.

Health, Happiness and Good Fortune,

Frank Fantozzi, President
CPA, MT, PFS, CDF, AIF
LPL Investment Advisor
Representative

Rebalanced Your Portfolio, Recently?

Sarah Horrigan

If not, unintended risks may increase

Warning: Without rebalancing your portfolio, over time you may become exposed to more risk than you initially intended. Understanding the reasons to rebalance and the steps to take to do so are important to your financial well-being.

Reasons to rebalance

Market fluctuations cause your investments to continually gain and lose value. In addition, financial market movements can cause significant imbalances in even the most carefully constructed asset allocation — potentially exposing you to excessive risk.

This is where rebalancing comes in. Bringing your existing portfolio into line with your target weightings may improve your portfolio's long-term performance. Letting your winners ride can work for a while, sometimes even years. But left on its own, your portfolio likely will become lopsided, too heavily tilted toward recent strong performers. This imbalance can set you up for big losses when market trends shift — as they typically will.

The other side of the equation is that your portfolio may become underexposed to the asset classes that have been underperforming. Owning less of these investments means missed opportunities when they begin to return to favor.

If you rebalance when their prices are relatively low, however, you can take advantage of market conditions to buy more of these securities at attractive prices. This sets you up for better long-term performance potential.

Actions to take

To bring your portfolio back into balance, consider selling some of the securities that have overgrown their target allocation. Then use the proceeds to buy more of the underrepresented investments.

Another option is to keep the “overgrown” securities but invest more money in your portfolio and buy more of the recent underperformers to bring them in line with your target weighting. This approach will automatically reduce the percentage of your portfolio devoted to the better-performing assets.

Because emotions can get in the way of smart investing, make the rebalancing process automatic. You're more likely to stick to it and realize its long-term benefits.

Many financial advisors recommend rebalancing on a regular schedule — say, once per year or quarter. It's probably not important whether you decide on a rebalancing date of, say, every July 19 or the first day of every quarter. It is important, however, to pick a schedule and stick to it, no matter what.

Another common approach is to rebalance whenever your portfolio weightings vary from your target by a specified amount — say 5%. Note that this approach requires you to monitor your portfolio relatively closely.

Don't forget about taxes

Rebalancing involves buying and selling securities, which can expose you to capital gains tax if you're working within a taxable investment account. And the impact can be particularly great because rebalancing usually involves selling some of your best performers.

Thus, you'll need to decide whether your tax costs may outweigh the potential long-term performance benefit of rebalancing. Your tax advisor can help you compare these pros and cons.

The decision to rebalance generally is easier in a tax-advantaged retirement account such as a 401(k) or an IRA. Because transactions in these accounts don't incur capital gains tax, you can reap the benefits of rebalancing with fewer costs.

Variables to consider

It's important to remember that rebalancing your portfolio doesn't guarantee a profit or protection from a loss. In addition, there are many variables when it comes to determining when and how to rebalance your portfolio. Your financial advisor can help you evaluate which mix of investment types is best for you based on current market conditions and your risk tolerance and financial goals.



Playing Catch-Up With Your Retirement Savings

Walt Moore

Whether due to two ferocious bear markets in the past decade or simply because you got a late start in saving, you might be looking for additional ways to build your retirement fund. If you're age 50 or older, "catch-up" contributions are one tool you should consider.

What are "catch-up" contributions?

Catch-up contributions are extra amounts the U.S. tax code permits individuals age 50 or older (by the end of the tax year) to contribute to their retirement plans — amounts over and above the regular annual contribution limits. Consequently, those who take advantage of catch-up contributions have the opportunity to add meaningfully to their savings over time.

How much extra you can put away depends on the type of retirement plan — see the chart "2011 retirement plan contribution limits." In addition, you can't make contributions in excess of your earned income for the year. (Additional rules may limit your ability to contribute in certain circumstances; check with your tax advisor for specific details that may apply to your situation.)

Tax treatment

If you make catch-up contributions to a traditional 401(k), 403(b) or 457(b) plan or a SIMPLE, they'll be pretax. Similarly, if you make catch-up contributions to a traditional IRA, you may be able to deduct them. (Deductibility depends on such factors as participation in an employer-sponsored plan and income level.)

So, for example, if this year you make the maximum catch-up contribution to your traditional 401(k) and you're in the 28% tax bracket, that's \$1,540 less federal tax ($\$5,500 \times 28\%$). There may be additional state tax savings as well.

The power of catching up

How much of a difference can it make to take full advantage of your catch-up options? More than you might think.

Let's assume you turn 50 this year and contribute an extra \$5,500 to your traditional 401(k) for 2011. You then continue making that same \$5,500 contribution for the next 15 years, until you reach age 65. If you achieve a 4% rate of return, you'll add close to an extra \$120,000 to your retirement nest egg before taxes. Increase your return to 6%, and the difference grows to about \$141,000. At an 8% return, the retirement savings boost works out to about \$167,000.

Saving to the max

Some savers qualify to contribute to both employer-sponsored plans and IRAs, which allows them to make catch-up contributions to both accounts, thereby boosting their final totals at retirement even more. And if you have a spouse who can implement the same strategy, the amounts discussed here can be doubled.

It's a good idea to check with your tax advisor to verify the level of catch-up contributions you're eligible to make. If you're concerned about having enough money in retirement, catch-up contributions might help you close the gap.



2011 retirement plan contribution limits			
Type of plan	Regular limit	Catch-up contribution limit	Total maximum contribution for taxpayers age 50 or older
401(k), 403(b) or 457	\$16,500	\$5,500	\$22,000
SIMPLE	\$11,500	\$2,500	\$14,000
IRA	\$5,000	\$1,000	\$6,000

Note: Other factors may further limit your maximum contribution.

The New Estate Tax Regime Jeremy Bok

Greater wealth-transfer opportunities now available

After many years of not knowing the fate of the estate tax, there now is some certainty — well, at least for two years. With the passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act late last year, the estate tax law is set through 2012. But if Congress doesn't take additional action, the estate tax will revert to levels prescribed by pre-2001 tax law beginning in 2013.

The bottom line is that, even though uncertainty remains, for the next two years you have the ability to transfer greater amounts of wealth out of your estate, thus lowering your estate tax liability.

2 Exemptions increased

Under the 2010 Tax Relief act, the gift tax exemption increased from \$1 million to \$5 million for 2011, and the \$5 million amount will be adjusted for inflation for 2012. The estate tax exemption for these years is the same as the gift tax exemption, but any gift tax exemption used during life will reduce the estate tax exemption available at death.

For 2010 and 2011, a top tax rate of 35% applies to taxable gifts or estates in excess of the available exemption. But in 2013, if Congress doesn't take action, the exemptions will fall to \$1 million and the top rates will jump to 55%.

If you have a high net worth, consider making lifetime gifts this year or next to lock in as much of the \$5 million exemption as you can without endangering your own financial security. Congress may

decide to make permanent the \$5 million exemption, but you'll still benefit by making lifetime gifts sooner rather than later, because you'll remove all future appreciation on the gifted assets from your estate.

One caveat to keep in mind is that assets you transfer by gift aren't entitled to the "stepped-up basis" that applies to assets transferred at death. Thus, you'll need to consider the effect of capital gains taxes your loved ones will have to pay if they decide to sell the gifted assets.

Married couples gain flexibility

Another estate-tax-related provision of the 2010 Tax Relief act allows the \$5 million estate tax exemption to be "portable" for married couples. What does this mean? Simply, if one spouse dies without using up all of his or her exemption, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining exemption to make tax-free transfers during life or at death.

This provision allows significant estate planning flexibility if proper planning wasn't done prior to the first spouse's death. But, as with the other new estate tax provisions, this one is available only through 2012 unless Congress decides to extend it. Even when the portability election is made before 2013, the benefits will be lost if the survivor doesn't use up the deceased spouse's remaining exemption before the portability provision expires.

Choosing the right strategy

If you have a large estate, the 2010 Tax Relief act has provided opportunities for you to transfer a significant amount of assets out of your estate tax-free. But remember that currently they're available only through 2012. Consult with your estate planning advisor to determine which strategies are best for your situation and when to take action.



The Brighter Side of Capital Losses

Frank Fantozzi

There's opportunity in that red ink

Capital losses are an almost inevitable part of investing, once you stray beyond federally insured investments, such as bank savings accounts and certificates of deposit. The good news is that losses can be used to lower your tax liability. They also give you an opportunity to reposition your portfolio.

Understand the basics

A capital loss occurs when you sell a security for less than your "basis," generally the original purchase price. You can use capital losses to offset any capital gains you realize in that same tax year.

When your capital losses exceed your capital gains, you can use up to \$3,000 annually to offset wages, interest and other ordinary income. (The limit is \$1,500 for married people who file separately.) If your capital losses exceed these limits, you can carry the remainder forward to future years until it's used up.

Watch out for the wash sale rule

Years ago, investors realized it was often beneficial to sell a security to book a capital loss for a given tax year and then — if they still liked the security's prospects — buy it back immediately. To counter this strategy, Congress imposed the wash sale rule, which disallows losses in situations where an investor sells a security and then buys the same or "substantially identical" security within 30 days of the sale, before or after.

Waiting 30 days to repurchase a security you've sold might be fine in some situations, but there will undoubtedly be times when you'd rather not be forced to sit on the sidelines for a month. Likewise, you might hesitate to double up on a position in which you have a loss and then wait 31 days to sell the original stake — a strategy that also avoids a wash sale violation because the purchase occurs more than 30 days before the sale.

Take a fresh look at your losers

Fortunately, there's another alternative. With a little research, you might be able to identify a security you like just as well as, or better than, the old one. Let's assume you own stock in a networking equipment company that has lost value since you purchased it. After researching the industry, you discover that the company's chief competitor is actually more attractively valued and has better growth prospects.

Your solution is now simple and straightforward — you simultaneously sell the stock you own at a loss and buy the competitor's stock, thereby avoiding violation of the "same or substantially identical" provision of the wash sale rule. In the process, you've added to your portfolio a stock you believe has more potential or less risk.

The same strategy can be applied to mutual funds. In that case, your financial advisor can help you identify a mutual fund or exchange-traded fund with a similar investment strategy and size.

Actively managed funds can be harder to replicate than index funds, especially if you like a particular manager. Remember, though, whatever replacement you come up with doesn't have to be a long-term solution. It can essentially be a placeholder for 30 days, a way of retaining a position in the market in case a significant advance should occur.

Pay attention to the details

If you purchased shares of a security at different times, give some thought to which lot can be sold most advantageously. The IRS allows investors to choose among several different methods of designating lots when selling securities, and those methods sometimes produce radically different results.

When buying mutual funds, it pays to know when the next capital gains distribution will occur and how large it will be. If the distribution is sufficiently large and the date is imminent (they often occur in December), you might want to delay your purchase to avoid incurring a sizable tax liability. At the same time, bear in mind that prior

dividends paid and reinvested in mutual funds you own were taxed, and therefore increase your tax basis in the fund.

Ease the sting

Losses are an unpleasant fact of investing. But with a proactive attitude and careful planning, you might be able to use a loss to lower your taxes and strengthen your portfolio — which can go a long way toward easing the loss's sting. Before taking any action, consult with your financial advisor and tax professional to determine if this tax-reducing strategy makes sense for you.

Sidebar: Congress extends the 15% tax rate on long-term capital gains

Near the end of 2010, Congress passed legislation extending the favorable tax rates on capital gains instituted in 2003. That means a 15% rate on long-term capital gains for taxpayers in higher tax brackets and 0% for those in the 10% and 15% brackets. These rates will apply to both the 2011 and 2012 tax years.

With rates now scheduled to stay low through 2012, there's no immediate pressure to lock in capital gains to avoid paying higher taxes later. However, investors will want to see which way the political winds are blowing in the second half of 2012 and fine-tune a strategy that reflects any likely changes in tax policy.

At any rate, tax considerations should remain only one factor — and not necessarily the most important one — in the decision to buy or sell a security or mutual fund.



Frank in the News

Frank's expertise and ability to communicate complex financial concepts in a manner that resonates with the general public and the media has made him a sought-after subject matter expert among both local and national media outlets. His ability to help clients and the public understand the context and potential outcomes of specific financial, political and economic events and situations has led to numerous interviews and appearances.

Click on the links below to access Frank's recent thoughts on the topics that impact your **Return on Life™**.

August 15, 2011 – [Christian Science Monitor](#) – “Role Reversal as Wall Street Blames Washington for Economic Woes”

August 13, 2011 – [The Street.com](#) – “Market Looks for Stability in Coming Week”

August 10, 2011 – [Marketplace Radio](#) – “Market Gyration Cause Heartache, Economic Pain”

Frank shares his thoughts on what can be done to calm these troubled waters with Bob Moon on Marketplace Radio.

August 9, 2011 – [Forbes.com](#) – “Pessimistic Bernanke and FOMC Practically Admit QE Has Failed”

August 9, 2011 – [USA Today](#) – “Dow Closes up 4% After Fed News”

August 9, 2011 – [Marketplace Morning Report](#) – “Is There an Upside to the Downgrade?”

Frank shares his thoughts on Marketplace Morning Report with Jeff Horwich.

August 8, 2011 – [Christian Science Monitor](#) – “Dow Drops 1,147 points over three trading days. Is that a ‘crash’?”

August 3, 2011 – [Christian Science Monitor](#) – “Is the Stock Market Turning Bearish”

August 1, 2011 – [Marketplace Radio](#) – “Weak Economy Overshadows Debt Deal”

Frank shares his thoughts on Marketplace Radio with Jeff Horwich.

July, 8 2011 – [The Street](#)

As a guest on The Street with Debra Borchardt, Frank shares his views and reaction to the latest jobs report and discusses the market.

July, 8 2011 – [Wall Street Week](#)

As a guest on Wall Street Week, Frank shares his views and reaction to the latest jobs report and discusses markets sectors that are currently of interest.

July, 2011 – [COSE Update Magazine](#)

Frank and other business planning experts share succession planning tips and provide an in-depth look at the risk of waiting to develop your exist strategy and the steps you can take now to ensure the value of your hard work pays off when you need it most.

June 16, 2011 – [MarketWatch Morning Stock Talk](#)

Will anticipated solid earnings reports be enough to wake up the bulls? Hear what Frank Fantozzi, CEO and Chief Investment Strategist at Planned Financial Services, believes it will take to turn the tide on Wall Street. Frank shares his perspective on the current economic soft patch as well as his outlook for the months ahead with MarketWatch radio's Larry Kofsky.

June 2, 2011 – [Dow Jones – The Wall Street Journal Digital Network](#) – “Stocks Set to Rally as Weak Jobs Report Already Priced In”

May 31, 2011 – [Crain's Cleveland Business](#) – “Amendment in FDIC Bill Was Spark That Led to Financial Inferno”

May 31, 2011 – [CNN Money](#) – “How to Invest if You've Lost Your Job”

May 25, 2011 – [Crain's Cleveland Business](#) – “INVESTING GUIDE 2011: Investors now more careful”

May 19, 2011 – [CNNMoney.com](#) – “Stocks Poised to Open Higher”

May 6, 2011 – [New York \(AP\)](#) – “Stocks Rally as Hiring Spree Surprises Wall Street”

Also appeared in: Cleveland.com; USA Today; Forbes.com; TheStreet.com; Washington Post; CBS News; ABC News; Los Angeles Times; Miami Herald; Seattle Post Intelligencer; San Francisco Chronicle; Detroit Free Press; Chicago SunTimes; MSNBC.com; Seattle Times; Bloomberg BusinessWeek; AOL News; Charlotte Observer; Yahoo News; and MSN Money.

Disclosures:

1. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund. Investing in mutual funds involves risk. Including possible loss of principal.
2. Investors should keep in mind that they should consult their tax advisor prior to engaging in the strategy described in this article, significant transaction costs may apply and it is suitable for investors who can afford to absorb losses from their holdings and who are not seeking to hold securities for long-term application.).
3. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly. Investing in Real Estate Investment Trusts (REITS) involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained. Alternative investments may not be suitable for all investors and involve special risks such as leveraging the investment, potential adverse market forces, regulatory changes and potentially illiquidity. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.
4. Fixed annuities are long-term investment vehicles designed for retirement purposes. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Guarantees are based on the claims paying ability of the issuing company. Withdrawals made prior to age 59 ½ are subject to a 10% IRS penalty tax, and surrender charges may apply.)
5. Assets under management are in brokerage and advisory assets held with LPL Financial.
6. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price.
7. Investing in mutual funds involves risk, including possible loss of principal. An investment in Exchange Traded Funds (ETF), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks such as not diversified, price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking errors. LPL Financial does not endorse any product reference in this article.
8. The Federal Open Market Committee action known as “Operation Twist” began in 1961. The intent was to flatten the yield curve in order to promote capital inflows and strengthen the dollar. The Fed utilized open market operations to shorten the maturity of public debt in the open market. The action has subsequently been reexamined in isolation and found to have been more effective than originally thought. As a result of this reappraisal, similar action has been suggested as an alternative to quantitative easing by central banks.

Securities offered through LPL Financial. Member FINRA/SIPC.



Your life. Your money. Your way.™

7000 Fitzwater Road, Suite 300
Cleveland, Ohio 44141
440.740.0130

www.PlannedFinancial.com

