Paul Winter

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Sent: Wednesday, March 03, 2010 9:31 AM
To: pwinter@fiveseasonsfp.com
Subject: Your email campaign "Seasonal Musings" from Five Seasons Financial Planning LLC has been sent

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Seasonal Musings

March 2010

Musings In This Issue

Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning LLC (FSFP). In this issue, we'll be discussing strategies to dodge the coming tax hikes, the costs of "chasing

And Finally...

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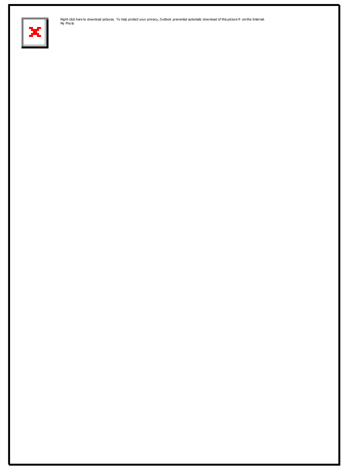
performance", financial planning rules of thumb, and advisors taking issue with Wall St. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

Dodging the Bullet

Planning for Higher Taxes



With the enormous size of recent budget deficits, many of you worry about the possibility of tax hikes in the near future. While the final changes to the Tax Code are anybody's guess, it seems clear that **the Treasury is taking dead aim at taxpayers in the top 2 tax brackets**. Those of you filing jointly with more than about $230,000 in taxable income, and those of you filing alone with taxable income exceeding $190,000, are in the crosshairs.

Judging from the Treasury's proposals, wealthier taxpayers could be subject to a combination of: (1) higher taxes on earned income, capital gains, and dividends, and (2) reduced tax shelters in the form of itemized deductions and personal exemptions.

With this being the case, possible strategies for high-income taxpayers include:

* realizing capital losses this year and deferring capital losses until next,

* accelerating income and deductions into this year from future years, and

* making use of more tax-efficient investments, like municipal bonds and ETFs, in taxable accounts.

Whatever form these tax hikes take, it's unlikely they will be enacted retroactively. For this reason, it's adviseable to be patient and to wait for the changes to become law before implementing these strategies.

It seems clear, however, that the long-term trend is towards higher tax rates, both at the federal and state levels. All other factors being equal, this makes IRA conversions to Roths for taxpayers in all brackets more attractive (although it raises the question of whether to realize the resulting income this year or to spread it over the next two).

For a refresher on the benefits of converting to a Roth IRA, check out the **January 2009 issue** of Seasonal Musings. And we'll cover some of the factors to consider in making that decision in the next few months.

Investing Mistakes We "Aught" Not Do

A Morningstar Study on the Lost Decade

In the last issue, we discussed mutual fund investors' counterproductive tendency to chase performance, to pile into outperforming asset classes near the top and to bail out near the bottom. Morningstar has just released a **study of investor experience** in the last decade that quantifies the cost associated with this behavior.

The bottom line: by chasing performance, investors underperform the mutual funds in which they invest in every major asset class save for Balanced Funds. (It seems the diversified nature and steady performance of balanced funds serve to calm investors' nerves). In the last decade, this reduced investor returns from mutual funds by almost half, from 3.18% per year to 1.68% per year.

In a backhanded way, this study also highlights that the last decade was not such a "lost decade" in terms of investment returns after all. All major asset class returns were positive. Buying a diversified portfolio on Jan. 1, 2000 (near the very top of the dot.com bubble) and holding it stubbornly through the end of last year would have yielded positive, though unspectacular, results. And this ignores the additional returns that could have been generated through rebalancing back to a target asset allocation, or through dollar-cost averaging.

Who would have guessed Bear Market Funds were one of the worst performing fund categories during the last 10 years? Here's hoping for a repeat of that performance in the next 10.

Another Rule of Thumb That's Dumb

A New Study on Income Replacement in Retirement

Articles about financial planning are rife with rules of thumb that downplay the effects of readers' individual circumstances on critical financial decisions. "Your portfolio's percentage allocation to equities should be

100 minus your age". "Life insurance coverage should be 5 times your current income". "You need 20 times your annual gross income to retire."

A recently released academic study by professors Scholz and Seshadri of the U. of Madison-Wisconsin debunks another of these rules of thumb: "You'll need to replace 70% (or 80% or 90%, take your pick) of pre- retirement income once you retire". In fact, the authors of the study concluded that no more than 15% of the population had an optimal income replacement ratio of between 65% and 90%. They found optimal replacement rates ranged between 23% and 240%, depending on a variety of factors.

Financial advice customized to an individual's unique financial circumstances - who woulda thunk it?

"Rules-of-thumb are for people who want to decide things without thinking about them."
--- Lynn Hopewell, former editor of The Journal of Financial Planning

"Anything well worth doing is worth doing well"
--- Paul Winter

And Finally...

"We're mad as hell and we're not going to take it anymore"

On behalf of those of you disgusted with the concept of taxpayers bailing out Wall St. so that they could pay themselves record bonuses this year, I had a chance to vent to Dow Jones columnist Ian Salisbury for a recent Financial Advisor magazine **article**. I hope you feel somewhat better for it.

Five Seasons Financial Planning LLC is a Fee-Only investment advisory firm registered with the state of Utah. Five Seasons offers integrated wealth management, as well as investment counseling and financial planning services. To view past issues of "Seasonal Musings", click **here**.

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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