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Seasonal Musings

September 2008

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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 changes in the tax treatment of real estate, positive developments for 403(b) plan participants and sponsors, and some changes at FSFP. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

A Housing and Economic Recovery Act?

Attention Landlords and Vacation Homeowners

With home prices down about 16% nationally in the past year, some of you are thinking it an opportune time to invest in rental real estate or buy a vacation home. Or some of you may still own highly appreciated rental or vacation property, and are considering how to dispose of it tax-efficiently. If you fall in either of these two camps, you should be aware of a change in the tax landscape to take effect next year.

For years you have been able to exempt yourselves from \$500,000 of real estate capital gains (if married filing jointly; \$250,000 if single) solely by living in the property for 2 of the 5 years preceding its sale. So, for example, under the old rules you could move into your vacation home for 2 years on retiring and shelter yourself from capital gains as above when you sold. Or you could move,

rent your old home for 3 years, and then sell it and still receive the same favorable tax treatment.

The attraction of these strategies may well decline starting January 1. Under the new law, any time a principal residence has been used as a rental or vacation home will count as "non-qualified" use and will serve to erode the personal residence capital-gains exclusion. The good news is that there are still several other strategies to soften the blow of capital gains taxes arising from the sale of property. The bad news is that if the housing market continues to soften, we won't have to worry about capital gains anyway.

Whose Watching the Farmers? Positive Developments for 403(b) Plans

403(b) plans are retirement plans established for educators, employees of non-profit organizations, and members of the clergy. They are similar in their operation to the 401(k) plans we're all familiar with. Unfortunately, the regulation and administration of these plans has historically been lax, if not negligent. Without going into the reasons why, this has left these employees at the mercy of insurance salespeople frequently more interested in commissions than in the financial security of plan participants. It's bad enough that many teachers are overworked and underpaid - do we have to subject them to this financial abuse as well?

How do I know all this? I spend a good deal of time poring through annuity contracts trying to extricate teacher, medical professional, and non-profit employee clients as painlessly as possible from these products with high fees, anemic performance, and/or 7-15 year surrender charges.

There is a bright side to this story. Starting next year, regulations will go into effect that will require 403(b) plan sponsors (school districts, religious and non-profit organizations, and the like) to be more responsible for their employees' retirement plans. Hopefully, the result will be that investment options will improve and that predatory salespeople will be prevented from roaming the halls.

Those of you who are 403(b) plan participants (or may even be plan sponsors struggling to meet the new regulations) should be aware of a useful online resource, www.403bwise.com. This website was developed by former educators as a source of objective information for plan participants and employers alike. There is some useful background information, and also a discussion board on which you may post questions. Do these workers a favor, and let them know help is available.

A Rolling Stone Gathers No Moss Changes at FSFP

Just a quick head's up to let you know that we are implementing some changes here at FSFP. Don't worry: we're still Fee-Only, still fiduciaries to our clients, and still independent.

The major changes are (1) that we will be performing project-based financial planning instead of charging by the hour, and (2) that we will only provide investment advice on an ongoing basis. Those of you who are clients should expect to see a letter via snail mail in the next few weeks detailing the changes and explaining the rationale. As usual, please feel free to drop me a line with any questions, concerns or comments.

Parting Words

"Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well."

---- Warren Buffett

"...they [investors] should try to be fearful when others are greedy and greedy when others are fearful."

---- Warren Buffett

Five Seasons Financial Planning LLC is a Fee-Only financial planning and investment advisory firm registered with the state of Utah. Five Seasons offers financial planning services on an hourly basis, as well as discretionary investment management. 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,

Paul N. Winter, MBA, CFA, CFP®
President, Five Seasons Financial Planning LLC

Email: pwinter@fiveseasonsfp.com

Phone: 801-272-0902

Fax: 801-439-0000

Web: <http://www.fiveseasonsfinancialplanning.com/>

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