



Market Comments

Up and Down, Up and Down

Stocks gave up the ground gained in January. Are we in a recession or not? Will the Fed drop interest rates again this month or not? Will company earnings continue to disappoint or not? Uncertainty prevails and is likely to continue for at least the next couple months.

Nobody knows when stocks will go up again. And it may well go down some more before it does. But that is not a good reason to stay out of the market.

In the context of the long-term view, it may be as risky to be out of the market as in it. If you invest with the idea of achieving at least long-term stock averages over time, missing an upswing can greatly hurt your chances.

Remember the fall of 1990. Everyone was worried. We were in an economic slowdown not dissimilar to the one now. We were anticipating war. Many people had pulled out of the stock market *after* it had fallen 20%.

In January and February of 1991 the S&P500 rose almost 12% and most of that gain was accomplished in only a handful of trading days. The index was up over 30.5% for that year and if you missed the best twenty trading days you would have missed most of the gains.

Unfortunately, the behavior of many investors is opposite of what they should do. They buy high and sell low. After markets climb, they get greedy and buy. Then, after the markets fall precipitously they get fearful and sell.

Since emotions can play such a defeating role and because it is very difficult to know exactly when stocks are going to move, most investors should keep a diversified portfolio in place and look not at short-term gyrations, but rather keep a big picture viewpoint.

That said, for the next one to three months we are Neutral on U.S. and International Stocks. Bonds are still Favorable.

Planning Corner

New Retirement Distribution Rules (For Age 70.5 Minimum Distributions)

Newly proposed IRS Regulations should make distributions easier to manage. Consult your tax advisors. In brief, changes to the minimum distribution rules include:

- A Uniform Table – Lifetime distribution recalculated by this table whether or not the account owner's beneficiary is a spouse and regardless of the age of the beneficiary. Therefore, you will generally only need your age attained in the year of distribution and the previous year-end account value to easily calculate your minimum distribution. (The exception is that if a spouse is sole beneficiary and is more than ten years younger than the account holder, a joint life table is used).
- Post-death minimum distributions are also simplified. If there is a designated beneficiary, the distribution period becomes the life expectancy of the beneficiary. If there is no designated beneficiary, distributions continue under the life expectancy of the deceased. This is more favorable to designated beneficiaries than the old rules.
- If account owner dies before required beginning date of the distributions, the remaining account balance must generally be distributed within five years of death.
- If the beneficiary is the account owner's estate, the remaining distributions will be based on the owner's life expectancy.
- If a charity is a beneficiary, the charity's portion may be cashed in immediately.
- Required beginning dates for IRAs remain unchanged. The first distribution must be made by April 1 of the year following the calendar year in which you attain age 70 ½. Beginning dates for an employer-sponsored plan is different. First distributions must begin by the later of April 1 of the year following that in which you turn 70 ½ or the year the employee actually retires. (However, only IRA rules are used for 5% owners of the sponsoring company.) Note that if you wait till the following year after turning 70½, you will have to make two distributions in that year, so it may not be advantageous to wait.
- Timing of beneficiary designations is not as prohibitive. In fact a post-death beneficiary change is now possible to allow for the most favorable estate planning. This aspect should be discussed with your attorney as it may require possible revisions of estate planning documents.
- Rules regarding IRA assets placed in trusts are now easier. Again, discuss this with your attorney.
- Beneficiaries are final as of the annuity start date where a annuity payment has been selected.
- Surviving spouses who are sole beneficiaries may delay minimum distributions until they reach 70 ½.
- The 50% penalty for failure to distribute remains.