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## DID YOU KNOW...

### Your Tax Questions

By **Laura A. Thompson, CPA**

It's that time of year again – the time when the only thing family and friends want to discuss with me is their individual tax situation. Based upon those discussions, perhaps I can clear up some of your questions by summarizing



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## COMMENTARY

### IMPORTANT CLIENT ALERTS:

Since December 10, 2008, Pershing LLC has provided excess account protection through Lloyd's of London ([www.lloyds.com](http://www.lloyds.com)), at the highest level of coverage available in the industry. This month, the insurance policy was renewed through December 10, 2010.

The policy, through Lloyd's of London, provides the following coverage for assets in excess of limits as defined by SIPC (for eligible Pershing LLC accounts):

An aggregated loss limit of \$1 billion for eligible securities across all client accounts A per-client loss limit of \$1.9 million for cash awaiting reinvestment, within the aggregate loss limit of \$1 billion.

Neither the Lloyd's of London coverage nor SIPC protects against loss due to market fluctuation of investments. For more information regarding SIPC coverage and the terms of the excess account insurance coverage Pershing provides through Lloyd's of London, please refer to the Strength and Stability section on [www.pershing.com](http://www.pershing.com).

### COMMENTS:

Over the last year many clients have asked me for ways to save money. Here are a few tips and tools that may help.

1. Revisit your budget. There are many free websites that help make this an easy task. [www.mint.com](http://www.mint.com) provides services like downloading and categorizing your balances and transactions automatically every day making it effortless to see graphs of your spending, income, balances, and net worth.
2. Re-evaluate your Property and Casualty policies. Make sure you are not sacrificing the proper coverage for a lower cost!
3. Invite a professional energy consultant to your home

the most popular questions related to 2009 and 2010 tax situations.

**Q:** Is it true that the basic residential energy credit was brought back in 2009 after it was unavailable in 2008?

**A:** Yes, and it's even been improved. For items placed in service during tax years 2009 and 2010, the credit rate has been increased from the original 10% rate up to 30% of the improvement cost. Additionally, the \$500 lifetime cap (\$200 for windows) has been eliminated and replaced with an aggregate cap of \$1,500 for property placed in service after 12/31/08 and before 1/1/11. Please be sure to discuss the new energy efficient standards with your installer and/or manufacturer before making your purchase to confirm that the property qualifies for the credit.

**Q:** I heard that education credits have changed – what's different for 2009?

**A:** For tax years 2009 and 2010, the Hope education credit (which has been renamed the American Opportunity Tax Credit) has been revamped. The credit limit is now \$2,500 per eligible student per year (100% of the first \$2,000 and 25% of the next \$2,000 of eligible expenses). The definition of eligible expenses now

to identify ways to save money on utilities throughout the month.

### **Roth IRA Conversion Opportunity**

Starting in 2010, everyone, regardless of income, will be able to convert Traditional IRAs into Roth IRAs\*. This change in the tax law has many investors asking if they should convert some, or all, of their retirement assets into Roth IRAs. There is no single answer to this important question, but the decision about whether to convert assets and how much to convert will depend on a single factor — taxes. Please contact me if you feel this maybe an opportunity for you, I will be reviewing these needs with all of my clients throughout the year.

Until next month...

Very Truly Yours,

Melissa J. Stein

\*The views are those of Melissa Stein and should not be construed as investment advice. All information are believed to be from reliable sources; however, we make no guarantee as to its completeness or accuracy.

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### **ARTICLES OF INTEREST**

## **Come on back to Electric Avenue**

**Chief Investment Strategist Corner**

**by James Swanson, CFA**

**January 5, 2010**



As we begin this new decade, the headlines could read: “Profits and pent-up demand lead investors out of 2009 into 2010,” or “How I survived the great recession (by looking at profits),” or “The oddest couple of all? Why the marriage of technology and utilities may work in 2010.” After all, we made it back from the brink!

The world banking complex nearly fell apart, but by the end of the year the Dow Jones

includes course materials. The credit is now allowed for the first four years in a degree or certificate program. The modified AGI phase out range has been increased to max out at \$180,000 (for MFJ filers) and is now allowed to be claimed against the AMT. Finally, 40% of the credit is now a refundable credit, subject to various limitations.

**Q:** I can deduct part of the sales tax on my new vehicle, right?

**A:** Correct, within certain criteria. Individuals who claim the standard deduction or who itemize and deduct state and local income taxes (rather than the state and local sales taxes) can deduct state or local sales or excise tax paid on the purchase of a new passenger automobile, light truck, motorcycle or motor home purchased between 2/17/09 and 12/31/09. The deduction is limited to the amount of taxes attributable to the first \$49,500 of the purchase price, subject to phase out for MFJ taxpayers with modified AGI between \$250,000 and \$260,000.

**Q:** I was laid off in 2009 and received unemployment – is that taxable income?

**A:** For tax year 2009, up to \$2,400 of unemployment

Industrial Average had posted a 23% gain from the start of 2009, while the Standard & Poor's 500 Stock Index had risen 23%, and domestic high-yield corporate bonds had returned 58%. Overseas markets joined in the broad recovery, with the Hong Kong stock index shooting up by more than 56%. Let's take a look back and forward.

Looking back, we can see that 2009 presented us with three big surprises:

Governments around the world were willing to intervene on a massive scale. Corporations, even during a severe recessionary period, were able to generate surprisingly healthy earnings.

The U.S. consumer did not collapse.

In 2010 we should see market preference shift from risk to quality. Investors played the risk card in the past nine months of 2009. Institutional investors led the charge, as they enthusiastically took on more risk by investing in smaller companies and those with the worst balance sheets. In the last four months of 2009, investors seemed to conclude the lower the quality the better.

The interventions of central governments and banks around the world, including the U.S. Federal Reserve Board, encouraged investor confidence that the economy was not heading into a depression. In general, the best investment results in 2009 came from the riskiest assets, although this trend may have played itself out by the end of 2009.

In November and December, for example, we saw evidence that performance leadership in both the stock and corporate bond markets might be shifting toward securities of higher-quality companies. This change could signal a move away from investments that generate short-term profits and toward investments that people want to keep.

Profits, profits, profits: Small revenue gains can generate solid profit growth. What's ahead for 2010? Look at corporate profits — both as a measure of what has been happening and as an indicator of what could happen. Right now, corporate costs are so low in the United States because productivity is running high. This combination creates a situation in which even small increases in revenues can translate to expanded profit margins and greater absolute earnings. We already have seen this in the earnings of many S&P 500 companies in the third and fourth quarters of 2009. Profits can embolden companies to spend more and to hire more, thereby helping to lift the big economies out of the ditch of 2008 and 2009.

Pent-up demand for houses, cars, and

compensation is excludable from the recipient's gross income. Any unemployment received above the \$2,400 is includable in income.

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### **Mortgage your house, not your future**

**By : Jo Ann Wiesen  
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Many people buy a new home by looking at homes, and putting an offer on one, and then call the bank. Some even buy new furniture, close down some credit cards, or accept that new job prior to consulting with a professional about the financing of that new home. The savvy consumers, however, call their mortgage professional first and ask some essential and germane questions. For example, how does my credit, income, debt, assets and future home selection affect my ability to get a loan and the terms in which I will be able to secure credit?

Knowing your credit score, ways to improve it and ways to avoid lowering it are all critical to getting the best terms available. Many times there are

consumer goods. Despite reports, the U.S. consumer is not dead. Pent-up demand could very well lead to increasing revenues in 2010 in most parts of the economy. We have already witnessed rising demand in the United States for housing, cars, and consumer goods. Demand pressures have been growing outside the United States, especially in emerging market countries where the appetite for U.S. technology and capital goods exports is growing. All this could mean solid profit growth in 2010.

Should the public keep buying bonds? Yellow light! Interest rates could rise in 2010. What about interest rates? Economic growth, not inflation, could push rates higher. Reflective of this low-rate environment, prices have risen in the bond markets.

This rise should be cause for vigilance. In past periods following recessions, interest rates often moved up, a trend that led to declining bond prices in both the U.S. Treasury and corporate markets. This trend could reappear at some point in 2010. Interest rate sensitivity in many bond prices is now higher than it was in earlier cycles. Although we do not see a major risk of serious inflation in the year ahead, price pressures may begin rising slowly toward the end of 2010. As we have seen historically, the bond market may anticipate these pressures and push rates higher even before we see official confirmation that inflation is accelerating.

What is cheap from a historic point of view? Large-cap, dividend-paying stocks may have the advantage.

Given all these factors, where can we find relative value? One place to look may be in large-cap, dividend-paying stocks. These stocks underperformed in 2009 in both domestic and foreign markets. And yet these securities offer ownership shares of some of the world's lower-risk companies. Moreover, their dividends provide the benefits of current yield, which often has been a buffer against the effects of rising interest rates. The case for equities only gets better when we anticipate improving employment numbers and rising corporate profits in 2010.

What is expensive from a historic point of view? Using history as our guide, we believe the current pace of economic growth and the supply of new "AAA" debt on its way suggests that easy returns in high-quality government bonds may be much harder to come by.

Why Electric Avenue: the odd couple of IT and utilities?

The information technology (IT) sector is not your 1990s tech story; the tech sector is more balanced and has changed much of the world. It is fairly valued, flush with cash, undergoing product revolutions, and selling cutting-edge products to resurgent

errors in the credit report that can adversely impact a score and it can take a few months to get the errors corrected and the credit score modified to reflect the change. Also, the decision to pay down certain debts prior to pulling your credit score can mean the difference of thousands of dollars in extra interest paid because of your perceived "credit worthiness."

The "type" and "duration" of your income may play a bigger role than the amount of your income. If you are self-employed or have recently switched jobs or professions, that can send red flags to the underwriters of the loan.

Your debts and assets focus on your ratios and what percentage of cash flow is going to service debt. You may have tremendous income but if your ratios are too high, you may not get approved under the best terms available.

Other factors that are also out of the borrower's control are the various programs available, including Conventional, FHA, VA, USDA and New Construction. You may want to speak with a mortgage provider that features all of those programs. Understanding that a bank only offers it's own rates while an independent broker has

emerging countries.

Utilities lagged in 2009 as the risk card played out. No one cared about yield or solid earnings stories. As rates rise in 2010, yield and utility demand will cause investors to take another look at 2009's forgotten stories. Historically the laggards and "safety valves" often play catch up in mid bull markets.

Make no mistake; investors should be wary entering the New Year. But they might take a look down Electric Avenue. Some things are different. At the same time they should bear in mind that 2010 could very well be a decent period for certain, but not all, financial assets. Overall, I would say: "Nice job in surviving 2009." My wishes for 2010 are for less drama and more quality. Keep vigilant and have a great 2010!

The views expressed in Chief Investment Strategist Corner are those of James Swanson and are current through January 5, 2010. They do not necessarily reflect the views of individual MFS® portfolio managers or other persons in the MFS organization. These views are subject to change at any time based on market and other conditions, and MFS disclaims any responsibility to update such views. No forecasts can be guaranteed. These views may not be relied upon as investment advice or as an indication of trading intent on behalf of any MFS fund.

The investments you choose should correspond to your financial needs, goals, and risk tolerance. For assistance in determining your financial situation, please consult a financial advisor.

Past performance is no guarantee of future results.

Source: MFS research

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Related Resources

MFS Investment Commentary and Outlook - Podcast series

Chief Investment Strategist Corner - (PDF format)

access to many lenders rates and programs, may endorse the position that you shop for a mortgage in a way that provides the most choice and flexibility in program and rate. There are many independent brokers that act as a “mortgage bank” and advance their own funds and sell the loan to another lender soon after closing. These mortgage banks often have all of the advantages of a broker with additional features that may provide faster loan turnaround times and fewer fees.

We now start getting into the specifics of your deal including getting a pre-approval letter that gives the real estate agent and sellers a little more confidence in knowing that you are a bona fide buyer and not someone who is shopping in a neighborhood with no ability to buy in that neighborhood.

Understand that without 20 percent of the purchase price being paid at closing, there will be an additional cost for Private Mortgage Insurance (PMI). There are fees to originate the loan, close the loan and pre-paid fees to cover taxes and insurance, as well as any association fees. You will want to know what these fees are so you can manage your finances and compare fees.

Your mortgage professional may point you towards your tax preparer to discuss any tax deductibility of closing costs along with any tax credits available from the US government with the First and Second Time Homebuyer program. There may also be tax abatements available from your county or local jurisdiction that should be examined.

No matter your situation, whether you are considering buying or refinancing your current mortgage, it is good to get a mortgage check up to see what steps can be taken to maximize your financial leverage and minimize the amount you pay for the leverage on the biggest expense of your life. You should not have to pay for such a checkup and you should only provide payment once it is determined that you will derive a benefit by getting a mortgage or refinancing your current mortgage.

Please feel free to contact me to answer any questions that you may have. There will never be a fee to simply address your mortgage questions. You may learn that making a change in your mortgage may make a positive change in your bottom line. You may also learn that there is no need to change, and that your current situation is

vindicated.

There are many factors out of our control, including housing supply and demand, the secondary market for mortgage backed securities, etc., so that is why we at Sail Mortgage say "We cannot direct the wind, but we can adjust the Sails."

Luck, good fortune and low mortgage rates all favor the informed and well prepared. It is never too early to become informed, so call now.

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