



2010 and Beyond: Rising Interest in Alternative Investments Forecasted

Spurred on by the recent economic crisis, Wall Street advisers are increasingly interested in both going independent, and seeking out alternative investments for their clients.



According to Morningstar Advisor, more and more financial advisers (including 58% of investment advisers they polled) indicated that alternative investments will "become as important or more important than traditional investments in the next five years". Advisers are apparently losing confidence in the degree of diversification inherent in the stock market and are increasingly interested in a broader means to achieving portfolio diversification.

Many of these advisers, according to Cerulli Associates, are taking their assets out of the Wall Street giants, and forging their own trail as independents. Cerulli estimates this trend will result in a 7 percent decline in Wall Street managed assets by 2012, with an almost corresponding percentage increase to independent advisers.

Dow Jones reports, however, that most advisers are unfamiliar with alternative investment vehicles and, therefore, are turning (when interested) to those most experienced and knowledgeable to help them. PENSCO is anticipating that this will result in a greater demand for our services in support of advisers desiring to better serve their customers' investing needs going forward.

More on Alternative Investments can be found at: www.penscotrust.com/investing/overview.aspx

IT'S A NEW YEAR FOR RETIREMENT ACCOUNTS

Well now that 2009 is behind us (whew!), we are all in position to capitalize on the new and unique opportunity for retirement savers we discussed in last quarter's newsletter. This one-time break is so important, we are covering it again, now that you may act on it. For 2010 only, you have the opportunity to convert a traditional IRA (tax-deferred) to a Roth IRA (tax-free) while spreading the tax impact over three years. Some important features include the ability to defer tax altogether for the tax year 2010, and paying the tax due with your 2011 and 2012 returns (split 50/50). This effectively spreads your tax burden over three years. Additionally, you are no longer prevented from making a conversion due to your income. Prior to January 1st, 2010, if you made more than \$100,000 modified adjusted gross income, you were ineligible for converting. The income limit has now been eliminated altogether!

How do you decide if and when you should take advantage of the Roth conversion opportunity?

1. First, decide if you need to draw from your retirement account (e.g., traditional IRA) within the next five years. If you do and you are over age 59.5, you should leave the amount you need in your traditional IRA, because withdrawals after age 59.5, while taxable, are penalty free (otherwise 10%). Whereas if you were to convert these funds to a Roth, you would pay the income tax for the conversion (granted that you can defer that until 2011 and 2012), in addition to a penalty on any converted

funds that you withdraw before the Roth conversion is aged for 5 years.

2. Another fundamental consideration is associated with the whether you plan to leave your retirement account to individual heirs and/or your spouse. If you do, the Roth IRA has substantial benefits over a traditional IRA.

First, any beneficiaries of your Roth IRA will inherit their share of the Roth that will then continue to grow tax-free over their lifetimes. They will be required to take minimum distributions of a portion of their inherited Roth IRA over their lifetime, but there are no limits on investing - nor on the gains and growth that be accomplished through investing along the way. In addition, due to the fact that the tax has been paid when the conversion took place, the amount of the conversion will reduce your taxable estate and increase the amount received by your heirs.

3. One consideration that can impact the benefits outlined above in support of converting, is the fact that tax brackets and rates may increase in the future. If you think rates may increase, you may want to pay the tax bill in 2010, or to convert only that much of your IRA in 2010 that you can absorb without getting yourself into a higher tax bracket. If you decide later (e.g., 2011), to convert more to your Roth IRA, you can do so regardless of income but you'll have to pay the tax due in the tax year of conversion (the three year deferral opportunity goes away at the end of his year (2010).

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4. A final point is that if you convert in 2010, and decide later that you made a mistake (e.g., the value of your assets (that you have a tax liability for) has declined, and therefore you'd rather not pay excessive taxes on assets with reduced values, you can convert back (called a "recharacterization") to your traditional IRA up until your tax filing date plus extensions (October 2011). While you won't have accomplished the movement of funds into a Roth IRA, you will avoid any taxes and penalties. Moreover, if you wait at least 31 days and until the beginning of the next tax year, you can now convert these assets (those reduced in value and that you recharacterized to your traditional IRA) at a lower value, resulting in lower taxes!

This is a very significant one-time opportunity the Government is giving us, and anyone with a traditional IRA should give careful consideration to taking advantage of it. Checking in with your financial advisor or CPA may help you to weigh the pros and cons and assist you with your decision. Remember that once you have paid the tax for the conversion, your Roth IRA will grow tax-free for life and you'll avoid the need to take the required minimum distributions after age 70.5 (that would otherwise be required from traditional IRAs). Don't miss this important opportunity if it suits your retirement savings needs!

ACH (Automatic Clearing House) Capability Up and Running for 2010

You may now choose to have funds disbursed electronically from your PENSCO account via ACH for purchases, distributions and expense payments. All you need to do is indicate your desired payment method on our Payment and Funding Instructions form: Indicate Check, Wire, or now ACH, with the required bank account information for us to make your payment.

ACH for Recurring Payments

You may also now establish regular, recurring payments either to pay expenses from your account or for your personal distributions. To establish an automatic monthly payment of a fixed amount, you will need to complete our Recurring Payment Instructions form instead, indicating monthly payment details such as when to begin, the day of month to make payment, and end date (if any). Please note: Changes or cancellation of automatic payments must also be submitted in writing.

Your Information is Online!

Did you know that logging into your account at www.PENSCOTrust.com is the easiest and most secure way for you to update your personal information? Verify and update your credit card, address and phone number by clicking the Client Center tab. It's as easy as that!



Tom's Column

Q. I have read on the Internet about the ability to roll an IRA or a traditional 401(k) over to a new Solo 401(k) for the purpose of investing in my own new startup. One of the promoters of this strategy has indicated that I could use my new 401(k) to start a company that can then either invest

in my daughter's new company or extend a loan to her. I wonder what you think of this approach.

A. Well, first of all, I can only comment on whether I believe this scenario poses any threat from authorities as a result of creating a prohibited transaction, and not on its merit. That being said, I believe this would be a violation of IRC 4975, as well as what the Department of Labor released as DOL Advisory Opinion 2006-1A. First, the approach of rolling over an IRA or a 401(k) from a former employer into a new Solo(k) or 401(k) designed for sole proprietors is not problematic on its own. There is also an exemption to allow the new 401(k) to fund the purchase of stock of the company that sponsors it (e.g., the sole proprietor's C Corporation or LLC). However, when that company (which is funded by the employer's pension fund) is used to pay the proprietor's salary, you may have a problem. The IRS has even opined on this strategy and has a name for it ("ROBS" or Rollover for the purpose of affecting a Business Startup). While they had many concerns about the strategy, they fell short of stating that it would create a prohibited transaction. However, an industry professional recently had a conversation with Department of Labor (DOL) representatives in Washington in December of 2009, who indicated that if asked, they would deem such a transaction to be prohibited. It is important to note that the DOL is the Government body that rules on prohibited transactions and not the IRS. However, in the scenario you describe, the funds are intended to be used to fund your daughter's firm or to extend a loan to her personally, rather than to pay yourself. Unfortunately, just like you - in relation to your retirement plan, your daughter (or a firm of which she owns more than 50%), is also a disqualified person under the rules in IRC 4975, and therefore, a transaction between your 401(k)-owned corporation and her (or her company) would be considered prohibited. Under the Plan Asset rules, the company funded by your pension account would be considered a plan asset (i.e. part of the plan) if the fund were to own more than 25% of it and it is not an operating company. And your scenario implies that it is an investment company and not an operating company (one that provides goods and services itself). Bottom line: if audited, there is a high probability that you would be guilty of a prohibited transaction, resulting in the invalidation of your retirement plan, and taxes and penalties.

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