



## MARKET UPDATE

### A 0% Rate of Return is a Rocky Road

A much needed "Santa Claus" rally came just in time to help the S&P 500 get back to break even with a 2011 return of -0.0028%, about as close to 0% as one can get. This was quite impressive given the barrage of bad news around the globe during the second half of 2011. [The S&P 500 rose 1.02% in December, and including dividends was up 2.11% for 2011.] In perspective, this performance is welcome news when compared to the global landscape, which saw losses into the levels of -10% to -20%. The MSCI All-Country World Index, which is starting to gain traction as the global benchmark, was down nearly -14%. Despite the S&P 500 logging such a boring year-end performance, the journey to get that return was anything but. Quarter by quarter went something like this: 1QTR 5.4%, 2QTR -0.4%, 3QTR -14.3%, and 4QTR 11.2%. Not surprisingly, the more defensive utilities logged positive performance while the financials were the clear losers. Commodities were mixed; oil was up roughly 8%, and **marking its 11<sup>th</sup> straight year of gains, gold was up 10%.**

The ongoing crisis across the Euro Zone continues with headlines and rumors swaying investor confidence in both directions. The recently announced European Long Term Refinancing Operation (LTRO) was launched with the intent to provide virtually unlimited funding to European banks at the low rate of 1%. Nothing like solving a debt problem with more debt. The main focuses here in the US continues to be unemployment and the housing market. The unemployment rate recently dipped to 8.5%, and while the housing market has yet to truly turn around, signs of life exist. The state of the US economy will surely take center stage as 2012 election campaigning kicks into high gear. Get ready for the "It's the economy, stupid" slogan to be used everywhere.



### Investment Outlook Summary

Asset Class	Outlook	Commentary
<b>Cash / Stable Value</b>	– In general, higher than normal levels of cash	Even though money market rates are basically zero, having investments with high safety and liquidity provides access when opportunities arise, and stability when markets turn volatile.
<b>Bonds / Fixed Income</b>	– In general, slight underweight level of bond exposure	Many bond mutual funds have enjoyed great gains, along with record inflows from investors during this latest "flight to safety." It may be time to look for fixed income investments outside of the traditional mutual fund.
	– Cautious of Treasuries for the long-run	Primarily used for safety, but with yields at historic lows and the risks of future inflation present, treasury owners may not be paid adequately for the potential risk.
	– Positive on Treasury Inflation-Protected Securities (TIPS)	Essentially, these are treasury notes with an interest rate tied to inflation. Used for safety, but the future interest paid would increase as inflation increases.
	– Positive on emerging market bonds	As this asset class develops and matures, there will be great potential for investors. <i>Speed bumps exist.</i>
<b>Stocks / Equities</b>	– In general, underweight to normal levels of stock exposure	Pullbacks should be seen as an opportunity to increase stock exposure to neutral levels, that is neither underweight nor overweight.
	– Positive on dividend paying stocks	Many of the traditional dividend paying companies are more attractively valued than the general stock market. A number of large companies are now paying a dividend that is higher than the yield on the 10 year US Government bond, some are even higher than the 30 year. <i>Still our focus, HOWEVER, not all dividends are alike. Be cautious of the stated "yield."</i>
	– Utilizing covered call strategies	Covered call options strategies can provide extra income to your portfolio while you own stocks.
	– Selective of international stocks	International diversification is still very important to your portfolio, however individual country selection will likely play an increasing role in international stock performance.
	– Positive on Korea, Brazil, Canada and Australia. Cautious of China. Russia?	While the long term opportunities remain with emerging market economies, resource rich countries like Canada and Australia provide the building blocks the world needs in order to grow. <i>If China has a hard not soft landing, Australia would be hit hard. Russia is attractively valued with rich resources, however the political environment can't be trusted.</i>
	– Avoid much of Europe, the U.K., and Japan	Current solutions appear to be a band-aid to a much larger problem inherent in a shared currency. Issues continue in Europe, recent news has increasingly affected the markets.
<b>Alternate Assets</b>	– Positive on Gold and Silver	Primarily used as an inflation and currency hedge. The risks of global currency dilution are present. <i>Last month we noted caution. Patience proved wise as gold and silver prices held up well.</i>
	– Negative on the Euro currency	Fiscal problems in Europe continue to be on center stage. <i>More with each passing day...</i>
	– Positive on energy trusts	Many energy trusts provide a good dividend source with the potential for capital gains.

*Italics denote a change from last month*

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## All About IRAs

An individual retirement account (IRA) is a personal retirement savings plan that offers specific tax benefits. In fact, IRAs are one of the most powerful retirement savings tools available to you. Even if you're contributing to a 401(k) or other plan at work, you should also consider investing in an IRA.

### What types of IRAs are available?

There are two major types of IRAs: **Traditional IRAs** and **Roth IRAs**. Both allow you to make annual contributions of up to \$5,000 in 2011 and 2012. The law also allows taxpayers age 50 and older to make additional "catch-up" contributions. These folks can put up to \$6,000 in their IRAs in 2011 and 2012.

Both traditional and Roth IRAs feature tax-sheltered growth of earnings. And both give you a wide range of investment choices. However, there are important differences between these two types of IRAs. You must understand these differences before you can choose the type of IRA that's best for you.

### Traditional IRAs

Practically anyone can open and contribute to a traditional IRA. The only requirements are that you must have taxable compensation and be under age 70½.

Your contributions to a traditional IRA may be tax deductible on your federal income tax return. This is important because tax-deductible (pretax) contributions lower your taxable income for the year, saving you money in taxes. If neither you nor your spouse is covered by a 401(k) or other employer-sponsored plan, you can generally deduct the full amount of your annual contribution. If one of you is covered by such a plan, your ability to deduct your contributions depends on your annual income (modified adjusted gross income, or MAGI) and your income tax filing status. You may qualify for a full deduction, a partial deduction, or no deduction at all.

What happens when you start taking money from your traditional IRA? Any portion of a distribution that represents deductible contributions is subject to income tax because those contributions were not taxed when you made them. Any portion that represents investment earnings is also subject to income tax because those earnings were not previously taxed either. Only the portion that represents nondeductible, after-tax contributions (if any) is not subject to income tax. In addition to income tax, you may have to pay a 10% early withdrawal penalty if you're under age 59½, unless you meet one of the exceptions.

If you wish to defer taxes, you can leave your funds in the traditional IRA, but only until April 1 of the year following the year you reach age 70½. That's when you have to take your first required minimum distribution from the IRA. After that, you must take a distribution by the end of every calendar year until your funds are exhausted or you die. The annual distribution amounts are based on a standard life expectancy table. You can always withdraw more than you're required to in any year. However, if you withdraw less, you'll be hit with a 50% penalty on the difference between the required minimum and the amount you actually withdrew.

### Roth IRAs

Not everyone can set up a Roth IRA. Even if you can, you may not qualify to take full advantage of it. The first requirement is that you must have taxable compensation. If your taxable compensation is at least \$5,000 in 2011 (and 2012), you may be able to contribute the full amount. But it gets more complicated. Your ability to contribute to a Roth IRA in any year depends on your MAGI and your income tax filing status. Your allowable contribution may be less than the maximum possible, or nothing at all.

Your contributions to a Roth IRA are not tax deductible. You can invest only after-tax dollars in a Roth IRA. The good news is that, if you meet certain conditions, your withdrawals from a Roth IRA will be completely free from

federal income tax, including both contributions and investment earnings. To be eligible for these qualifying distributions, you must meet a five-year holding period requirement. In addition, one of the following must apply:

- You have reached age 59½ by the time of the withdrawal
- The withdrawal is made because of disability
- The withdrawal is made to pay first-time homebuyer expenses (\$10,000 lifetime limit from all IRAs)
- The withdrawal is made by your beneficiary or estate after your death

Qualifying distributions will also avoid the 10% early withdrawal penalty. This ability to withdraw your funds with no taxes or penalty is a key strength of the Roth IRA. And remember, even nonqualifying distributions will be taxed (and possibly penalized) only on the investment earnings portion of the distribution, and then only to the extent that your distribution exceeds the total amount of all contributions that you have made.

Another advantage of the Roth IRA is that there are no required distributions after age 70½ or at any time during your life. You can put off taking distributions until you really need the income. Or, you can leave the entire balance to your beneficiary without ever taking a single distribution. Also, as long as you have taxable compensation and qualify, you can keep contributing to a Roth IRA after age 70½.

**Note:** You can have both a traditional IRA and a Roth IRA, but your total annual contribution to all of the IRAs that you own cannot be more than \$5,000 (\$6,000 if you're age 50 or older).

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## SDW's TAKE

### Traditional IRAs

- IRA Account: **grows tax deferred** and can be invested in a wide range of investments including stocks, bonds, ETFs, mutual funds, etc...
- Contribution: **tax deductible** if income limitations are met.
- Rollover: the action of transferring a previous employers' retirement plan into your IRA account. *This is a non-taxable transaction if done correctly.*
- Conversion: the action of converting an existing IRA to a Roth IRA, in 2010 the income limiting restriction was removed, however the amount converted is taxable as income in the year converted (*2010 exception*).
- Distribution: a 10% penalty exists on withdrawals before age 59½, Required Minimum Distributions (RMD) start at age 70½, all **withdrawals are taxed at income tax rates**.

### Roth IRAs

- Roth IRA Account: **grows tax deferred** and can be invested in a wide range of investments including stocks, bonds, ETFs, mutual funds, etc...
- Contribution: **not tax deductible**, and only allowed if income limitations are met.
- Rollover: typically rollovers are for traditional IRAs not Roth IRAs, however recently introduced Roth 401(k)s are more common and a Roth IRA would be the receiving account for such funds. *This is a non-taxable transaction if done correctly.*
- Conversion: (see Conversion above)
- Distribution: for most situations **retirement withdrawals will be free from taxes**. (see main article for special circumstances).

With recent tax law changes, opportunities for both Traditional and Roth IRAs have become more accessible to clients, even those with higher incomes.

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