

Happy New Year ! 2010

Estate Tax Changes ~ by Russell W. Ketron, CFP®

On December 3 the House of Representatives passed an estate tax bill, H.R. 4154, introduced by Rep. Earl Pomeroy ~ D-North Dakota. The bill, the Permanent Estate Tax Relief for Families, Farmers, and Small Businesses Act of 2009, passed by a vote of 225-200.

The bill would extend the 2009 estate tax level to 2010 and make permanent the estate tax at a \$3.5 million level exemption for an individual and \$7 million level exemption for couples and impose a 45% maximum tax rate as proposed by the Obama Administration. The bill now moves to the Senate and Democrats said they expected it would pass Senate muster.

Congress must do something before year-end or there will be no estate tax in 2010. Personally I have never expected the estate tax to go away despite some calls to eliminate what has been called the "death tax."

Pomeroy's bill "re-unifies" the gift and estate exemption, making estate planning easier for the time being and allows time for estate holders to get appreciating assets out of their estate. The problem is the bill does not have an incremental CPI provision to keep up with inflation. In essence, that omission is a subtle way of insuring constantly increasing estate/gift taxation in the future if inflation continues as in the past.

Roth IRA 2010 - Your Opportunity to Convert ~ by Michael Jensen

You may already have heard about the changes to Roth IRAs that began January 1, 2010. There is too much information on this topic to fit it all in our newsletter, but Ketron Financial will be presenting the detailed information in another format. As always, if you have questions, feel free to call and ask.

Unlike traditional IRAs and retirement accounts which are tax-deferred, a Roth is a tax-exempt account. In a tax-deferred account, money put in the account is not taxed at the time of contribution, so it will be taxed upon withdrawal. In a tax-exempt account taxes have been paid before putting money in the account. Therefore, future

withdrawals from that account are tax-free.

The Roth Conversion

A Roth conversion is the act of moving funds from an existing tax-deferred account into a Roth IRA.

Prior to 2010 you had to meet two requirements to qualify for a Roth. Your Modified Adjusted Gross Income had to be equal to or less than \$100,000, and your tax filing status could not be "married filing separately".

According to the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), which was passed in May 2006, there will be no income or filing status restrictions after January 1st of 2010. This may represent an opportunity for high-

income earners to convert. If you've been denied the advantages of a Roth IRA because of your income, 2010 is the year that you may finally be able to take advantage of these tax-free accounts.

Does that mean this is just for previously excluded high-income earners? No - there are advantages outlined below that can be of benefit to anyone in retirement planning who has not already opened or converted to a Roth. It also does not mean that a high-income earner should automatically switch to Roth just because they can. Taxes and tax law are a complex subject, and careful consideration should go into the decision to convert.

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~Bad Predictions~

"The ordinary 'horseless carriage' is at present a luxury for the wealthy; and although its price will probably fall in the future, it will never, of course, come into as common use as the bicycle." Literary Digest, 1899.

HAPPINESS, SEEKING THE BEST INTERNATIONAL INVESTMENT OPPORTUNITIES, DUBAI AND TOO BIG TO FAIL ~ by Glen Calkins

Happiness

Dr. Tal Ben-Shahar a Professor at Harvard started a new course called Happiness. Eight students signed up. After a little while two of them dropped out. A few semesters later it was the most popular course on campus with over 1,400 students. In reviewing his stuff you might think many of his recommendations align with your life skills. Exercise, having someone or something you care deeply about, reduction of stress, meditation, learning, acts of kindness, daily reflections on the good things that have happened, self acceptance, psychological safety, where our minds go when we allow ourselves joy and relaxation; these things bring us happiness.

In the play "Our Town," Thornton Wilder helped us look at life and time. He noted our days pass so quickly that perhaps only some of the poets and philosophers see its preciousness. Yet life is what life is and occasionally it gets too far out of synchronization and drags our thoughts down. The Dalai Lama speaks and writes values, philosophies about what we think and how it affects us. "We Are What We Think" by James Geary is the title of a book in my library.

One project of mine is to build youth programs in citizenship and leadership, seeking to offer lessons that create foundational memories that last, give strength, perspective, courage, and the clear sightedness to survive and grow and prosper. In this project and working with friends/clients I am inspired by who and what we really are.

Charles Kuralt ended his Sunday Morning shows with a few seconds of life in its natural beauty. One day he brought the audience to a ghetto, perhaps Harlem, and showed flower boxes and street growths as they were blossoming; his comment was "beauty is where you find it."

Periodically we have a national overload of fear. Wars of course have impacted us that way. The Second World War was the worst for us in recent history. But fear and over reaction abounded in the cold war when we felt threats of nuclear war. In the 1950s families discussed building bomb shelters, and bought cases of canned food. The news advised survival techniques, now occasionally reprised in the duck and cover survival technique for school children. It seems that there are always problems and they can get worse, occasionally much worse. Each time we bounce back we overcome our national imbalance of fears and discover that in our communities there is intelligence, courage, determination, wisdom and other necessary skills.

We are just completing a dismal decade of losses in confidence and fear of terrorism. The S & P 500, 2009 was 70%+/- of what it was ten years ago (December 31,

1999) (*Yahoo finance for S&P 500 12/31/08 value, future closing value for 12/31/09 makes range estimate based on value 11/20/09 when article was written*). The vulture capitalists have prospered on and fomented our fears. Big money was made by hedge funds jaw-boning corporate fear and short selling the market, breaching our confidence, and undermining our right to share in the growth of the economy. Our government oversight was insufficiently effective arguably contributory to the imbalance of fear in our markets. It seemed that our President, Congress, banks, and insurance companies breached their fiduciary trust. They failed to adequately protect us or calm our fears and contributed to the near collapse of the world economies. This recent history is a cycle of fear and disappointment. The path from here is not just down; I believe we are much nearer the bottom of our confidence cycle, economic cycle and market cycle than is currently obvious. This is a nation of individuals. Cumulatively I believe we are strong and some of our problems will diminish and our national self confidence will improve.

Seeking the best International Investment opportunities

All through this past decade we have looked for ways to reduce risk, expand opportunity and find better balances in portfolio assets. Each year we increased the total client dollar investments in international investments. This strategy has been a good one. In the past decade, while our invested dollar domestically was in a decline, some of the world markets grew.

A few months ago I began a comprehensive project to find the best international investments. I studied investment opportunities available in markets that represent 97% of the world economies. The top ten economies equal 66% of the Gross World Product. Of those ten only two have a higher stock market index than they had December 31, 1999. (*World Gross Domestic Product was found in multiple sources through a Google search, Historic market index information came from multiple sources, but the primary source was Yahoo Finance, defining objectives, gathering raw data, converting raw data into dynamic analytical models and the analytical interpretation was all done by Glen S. Calkins*)

Reviewing thousands of investments and all the major world economies and stock markets, I sought the most successful index investments in each country and the best managed companies that are domestically available for us to purchase. I built models using historic records covering the last decade. I explored the transitions, the high and low points in each market and identified investment champions for each of the international investment pools.

The results of the above review are fascinating. With them, I developed dynamic models to see the shifting movement and momentum flows of both markets and investments. Having done that, I began reviewing client portfolios, looking to include the benefits of this research. ~ **continued on page 3**

A New Wrinkle ~ by Dr. Eric Shapira

What I learned from older people who never acted their age

Montara, California – Aging is inevitable, no matter how hard people try to stop or turn back the clock. This fact of life has become problematic for governments and citizens around the world as each struggle to provide care for their aging populations. In his book, *A New Wrinkle*, Dr. Eric Shapira prepares his readers for the future and what to expect.

A New Wrinkle serves as a guide for those who similarly find themselves caught between their parents and their children, on the horizon of both taking care of their parents and continuing to raise their own children. The author helps his readers cope by learning about themselves through other's examples. Dr. Shapira stresses creating win-win situations for his clients in order to maintain strong relationships. He counsels them on remaining flexible, learning to go with the flow and staying true to their strategies.

Dr. Shapira is well regarded as a pioneer in clinical gerontology. In 2008, he spent time in China (at the request of their government) speaking to over 500 professionals about the country's aging crisis. China's population is rapidly increasing, therefore creating the need for a solution on how to best care for its aging residents. He gave 15-20 lectures over a two-week period covering topics of hospice care, palliative medicine, nursing and dentistry. Dr. Shapira also attended to patients and gave doctors and family information and recommendations about the care of each individual.

Readers are invited to conquer life's challenges by learning from the personal stories of others. Everyone will deal with the effects of aging in their lifetime and many will be forced to make decisions on the care of their loved ones. Dr. Shapira advises his readers on how to examine their own lives and strategically plan and confront any challenge at hand. It is a

perfect guide for anyone handling a life-changing transition, facing the aging process or caring for elderly family members.

About the Author

Dr. Eric Zane Shapira was born in Los Angeles, California. He earned a Bachelor of Science from Bethany College and a Doctorate of Dental Science from the Temple University School of Dentistry. After practicing dentistry for over 30 years, he returned to school and received master's degrees in clinical gerontology and health administration.

Please visit Dr. Shapira's Web sites www.agingmentorservices.com and www.newwrinklebook.com for more information.

Dr. Eric Shapira
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Aging Mentor Services, Inc



HAPPINESS, SEEKING THE BEST INTERNATIONAL INVESTMENT OPPORTUNITIES, DUBAI AND TOO BIG TO FAIL ~ by Glen Calkins

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These investments are among the economies expected to grow faster than the world growth in the next economic cycles

(Sources include "The Economist", Lectures by Professor Timothy Taylor, "America and the New Global Economy", articles found using Google Search on international growth history and growth, and Publications by the World Economic Forum, Harvard University, among others.)

You may have seen news on growing world economies; Brazil and China are often discussed and they are not alone. The U.S. Market has had three terrible decades in the last 80 years, the 30s, 70s and the last decade. The 30s and the 70s were serious disappointments, but followed by long cycles of growth.

(Source: This information is widely available and did not come from one source; a graphic depiction is

available on "2008 Andex Chart")

Our economic problems are not over; unemployment is way too high and understated by the statistics. 2010 is an election year for Congress and a large portion of the stimulus package is to be spent in this year. Consider the markets in the late 90s when Chairman Greenspan's Federal Reserve system was pouring money into the U.S. economy to save us from the potential computer crashes of the new century. Those dollars not only helped technology spending, they ramped up the stock markets. This time the infusion of funds into the economy is much greater.

The world is more significant to our investing every year. We are the dominant economy but shrinking in percentage. Many of the other

economies in world markets have much faster growth rates.

I believe international investing will merit continued increases in our portfolios. My effort is to diminish the risk and expand the reward. This investment plan is intended to serve a portion of our portfolios, and be realigned on a quarterly basis to target a cluster of national investments that appear poised for the best performance. ~ continued on page 5

"If I had thought about it, I wouldn't have done the experiment. The literature was full of examples that said 'you can't do this'."
~ Spencer Silver on the work that led to the unique adhesives for 3-M "Post-It"

Roth IRA 2010 - Your Opportunity to Convert ~ by Michael Jensen

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So the question is, would you rather pay the government now (Roth) or later (Traditional IRA or qualified account)? There are several factors influencing this decision.

Benefits of Roth IRAs

Roth IRAs offer certain benefits that are not available with a Traditional IRA.

Qualified distributions are not included in your gross income if you have had the Roth account for five or more years and are age 59½ or older. (Early withdrawals are subject to a 10% penalty, although certain exceptions apply.)

Unlike a Traditional IRA, the Roth IRA does not require you to take annual minimum distributions beginning at age 70½ (unless you convert after age 70½, in which case one final RMD is required). This is a significant point, since any unneeded cash or investments inside a Roth can be left alone to grow. You can take distributions, according to Roth rules, or let it potentially grow free from federal, and in most cases, state income taxes, which may increase the amount available for your retirement or for your beneficiaries who inherit the account. Although there are required minimum distributions (RMDs) from Roth 401(k)s and Roth 403(b)s, at retirement you can roll these accounts into a Roth IRA and thus avoid RMDs.

Again, a significant point here is the growth of monies in the account - the gains. In the tax-deferred account the owner will pay taxes not only on the principal (contributions), but also on the money produced by growth (the gains in the account that come from returns on investments held inside the account). In the tax exempt account, because taxes are paid upfront, only the contributed dollars are taxed - the dollars produced inside the account as a result of growth are tax-free. (There are some exceptions to this rule, so check with your

accountant to see if any apply to you.)

Another possibility is to roll over your workplace savings plan, such as a 401(k) plan, to a Roth IRA. This is a strategy you may want to consider if you are about to change jobs or are approaching retirement. Here, too, the \$100,000 income limitation has been eliminated in 2010.

The Decision to Convert

When converting to Roth, the amount converted is fully subject to federal income tax (and state, where applicable) for the year in which the conversion is made. The primary consideration in deciding whether or not to convert is in comparing the marginal tax rate in the conversion year with the marginal tax rate in the withdrawal year (probably the year of retirement).

Generally, it's assumed that a person's tax bracket will be lower at retirement, since many retirees experience a drop in income at retirement relative to their working years. However, since tax rates are likely to go up over the next few years, this rule of thumb doesn't necessarily apply. Currently, 35% is the highest tax bracket for federal ordinary income tax purposes. If Congress increases tax rates, those who retire near that time could find themselves in a higher tax bracket, increasing both the tax on distributions from a Traditional IRA and the taxes on a Roth IRA conversion.

Higher taxes in the future may be enough to shift the balance in favor of a Roth. By giving up your deduction, you'll pay more tax now -- but in exchange, you may avoid getting taxed at a higher rate later, depending on your current tax bracket and future rates. That makes converting sooner especially useful if you plan to retire in the near future.

In this circumstance, the Roth offers a hedge against political risk (although Congress could still change the tax laws as they apply to a Roth in the future, as unlikely as that may be). The probability of rising tax rates also

means that, for anyone who expects to benefit from a conversion, it is better to convert sooner than later.

If the tax rate in the year of conversion is close or equal to the anticipated rate in the year of withdrawal, then other factors may come into play, but tax rates (current vs. future income tax brackets) are the big consideration.

If you do convert, it is generally better to pay the taxes owed with funds that are not withdrawn from an IRA or other retirement account, as doing so could generate yet more tax. When taxes are paid from a taxable account, more funds grow tax exempt in the Roth IRA.

Just for 2010

If you do the conversion in 2010, TIPRA offers an additional possibility. You can elect to pay any federal tax on the conversion in 2010, or, as long as the converted amounts are not distributed before 2012, half of the taxable amount will be included in income for 2011 and half for 2012. However, with the likely rise in tax rates, those who convert in 2010 may have a higher tax bill in 2011 and 2012, which would argue against postponing the payment of those taxes.

Estate Planning and Inheritance

People who inherit Roth IRAs may also get favorable tax treatment, so converting a Traditional IRA or workplace savings account to a Roth IRA may be a savvy estate-planning tool. Be sure to ask your accountant or tax specialist for details, as I was just informed by mine that the rules are currently changing as fast as they can keep up. I hope to have more detail for you on this once things settle down, and I can be sure of having relevant information.

A Roth conversion increases taxable income in the conversion year. This may increase the size of Medicare Part B premium and the taxable portion of Social Security benefits. Everything else being equal, try to time Roth conversions for before 65 or before Social Security benefits begin.

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HAPPINESS, SEEKING THE BEST INTERNATIONAL INVESTMENT OPPORTUNITIES, DUBAI AND TOO BIG TO FAIL ~ by Glen Calkins

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Dubai

A destination Mecca with huge real estate development investments is in trouble. Initially the losses are reported to be around \$100 billion. (*Source online news Nov. 30, 2009*)



Google Finance reports that they restructured 26 billion in debt today, (Nov. 30, 2009). CNBC reported, Nov. 30, 2009, that only (?) around \$10 billion is invested from the USA and the impact to us is not considered threatening to our economy. In that report, Great Britain was reported to be one of the larger creditor nations for Dubai. News coverage of recent economic problems suggests that there is still much to be learned, and probably more damage will be reported. The ripple effects of all this are another unknown.

Some of the first concerns are international investing, particularly into emerging markets. Dubai is described as somewhat like a Las Vegas, a destination economy, with a high need for

visitors.

Too big to fail

This is not a term that I appreciate. Rapid bankruptcy can be a healthy solution in an entity that is a threat to our economic structure. In the automotive industry, we might have rapidly forced sale of valuable assets to new asset holders, rather than investing government billions and burdening the surviving entity with bureaucratic obstruction to competitive realignment. Suppose that large competitors paid current value for the assets and reorganized the assets to be economically productive. Both the economic and the tax payer costs could have been lower.

History tells us that too big to succeed or continue to succeed has been as valid a concern as too big to fail. Great Britain has been fading for some time; the Soviet Union could not survive. Many times in history cultures expand and contract, Greece and Rome are studied examples. Industries have risen rapidly and then faded or collapsed. Change is a normal part of the pulsation of growth. For this reason Warren Buffet seeks

to invest in industries that do not need to reinvent themselves regularly as the world changes. (*Over the years, I have heard Warren Buffett speak on his investment philosophy many times.*)

As always, I thank you for the opportunity to be of service. Please call or email when I can be helpful.

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He who hesitates is not only lost,
but miles from the next exit.

~ Anonymous

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A Few Things to Consider

Many taxpayers have substantially more funds in tax-deferred accounts that will eventually be taxed in future years than in tax-exempt Roth accounts. By converting some funds to a Roth IRA, the taxpayer may reduce this imbalance and reduce the damage if Congress raises future tax rates. In other words, having funds in both types of accounts may help protect against a broader range of future events.

This is particularly true for retirees whose taxable income may vary substantially from year to year. In years with more deductible medical

expenses, taxable income may be negligible. In such years, the retiree may be able to convert tax-deferred funds to a Roth IRA at an unusually low tax rate. On the other hand, if the retiree has an unusually high tax rate one year, due to a windfall or large capital gains, he can withdraw any additional funds needed that year from a tax-exempt Roth account.

Finally, for those hesitant about the conversion, it helps to know that there is the option of recharacterization. This is basically a do-over that allows you to undo the conversion, turning the newly converted Roth back into a Traditional IRA. Gener-

ally, you have until the due date of the tax return for the year of the original contribution. In most cases, that would be April 15 of the year following the conversion year.

We at Ketrion Financial currently have our eyes on international investments as a strong way to potentially boost returns, including those investments held inside a Roth, where they can grow with some degree of tax protection as outlined above.

For more information please contact Michael or Russ at (415) 892-0928 or mjensen@protectedinvestors.com

2009 CHARITABLE CONTRIBUTION LIST

By KETRON FINANCIAL, LLC

We would like to thank those clients and friends who participated in our charitable matching program for 2009. There is a growing awareness in our clients who see philanthropy as supporting their own personal, family and social values and not for personal gain.

Special thanks are due to those clients who have set up and/or continue to contribute additional assets to their Charitable Remainder Trusts and Donor-Advised Funds. These are excellent ways to pass on family values and encourage the ongoing need for stewardship and philanthropy.

We thought you would enjoy seeing the variety of the charitable gifting beneficiaries shared by Ketron Financial, LLC, Russ, and our clients this last year.

AFGHANISTAN/IRAQ MEMORIAL FUND	HOSPICE BY THE BAY	PEO CHAPTER SS
AFRICAN AMERICAN HISTORICAL CUL. SOC.	HOSPICE OF ARIZONA	PREGNANCY RESOURCE CENTER
ALL SAINT'S LUTHERAN CHURCH	HOSPICE OF PETALUMA	PRESBYTERIAN CHURCH
ALL SAINT'S MEN IN MISSION	INTERACT CLUB	PROJECT AMIGO
AMERICAN FRIENDS SERVICE COMMITTEE	JAPANESE AMERICAN CITIZENS LEAGUE	PROJECT OPEN HAND
BAY AREA ELECTRIC RAILROAD ASSOC.	LITA, INC.	ROCKY MOUNTAIN ELK FOUNDATION
ACCION INTERNATIONAL	MARIN COUNCIL BOY SCOUTS	ROTARY CLUB OF NOVATO
ALLIANCE FOR SMILES	MARIN WOMEN'S HALL OF FAME	ROTARY FOUNDATION
AMERICAN DIABETES FOUNDATION	MARIN HUMAN RACE	SALVATION ARMY
AMERICAN CANCER SOCIETY	MARIN RELEAF	SAN MARIN HIGH SCHOOL VARIOUS PROG.
BOY SCOUTS OF AMERICA	MARIN SHAKESPEARE COMPANY	SIR FRANCIS DRAKE SCHOLARSHIP
CHAGDUD GONPA—RIGDZIN LING	MARYVILLE COLLEGE	SHELTERBOX USA
CITIZENS AGAINST GOVERNMENT WASTE	MISS MARIN COUNTY/SCHOLARSHIP PROG.	ST. VINCENT DE PAUL SOCIETY OF MARIN
COLLEGE OF MARIN FOUNDATION	NAPA COUNTY HISTORICAL SOCIETY	ST. JOSEPH'S INDIAN SCHOOL
DISABLED AMERICAN VETS	NAPA HIGH ALUMNI ASSOCIATION	UNIVERSITY OF MICHIGAN
FINE ARTS MUSEUM OF SAN FRANCISCO	NHS MUSIC BOOSTERS	VARIOUS ROTARY CLUBS & PROJECTS
FRIENDS IN SONOMA HELPING—F.I.S.H.	NOVATO HUMAN NEEDS CENTER	VINE VILLAGE, INC.
HELEN DILLER FAMILY COMP. CANCER CTR.	NOVATO ROTARY ENDOWMENT	VILLAGE LEAGUE
HOLY FAMILY DAY HOME	NOVATO HIGH SCHOOL VARIOUS PROG.	WOMEN'S CLUB OF MARIN
HOMeward BOUND	NOVATO THEATER COMPANY	WHEELCHAIR FOUNDATION
HOSPICE EDUCATION INSTITUTE	NOVATO YOUTH CENTER	WOODSIDE VILLAGE CHURCH

Happiness is not a matter of good fortune or worldly possessions. It's a mental attitude. It comes from appreciating what we have, instead of being miserable about what we don't have. It's so simple—yet so hard for the human mind to comprehend.

~ Anonymous

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Financial, and Lifetime Planning Decisions.*

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