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Quote of the Month

One generation
opens the road
upon which another
generation travels.
– Chinese Proverb

Monthly Market Commentary — Jeffery E. Townsend, CRPC®

In light of the recent unemployment increase, which topped 10%, investors continue to plow more money into U.S. and foreign stocks, gold, oil, and junk bonds. The better than expected reading on the third quarter GDP is just the latest sign that the U.S. has exited the recession. If history is any guide to what typically happens after any type of market correction (or crash), then we can expect a period of sustained growth.

While many view this rally as a “sucker's rally,” we have seen strong earnings and an analyst upgrade in the consumer sector. A recent visit to the mall with my family certainly supports that consumers are starting to spend. The mall was crawling with folks; even more important is that most of them were carrying bags with their recent purchases. This is not to say that all is well and consumers will go back to spending as usual, but I do think there is more consumer confidence than what was seen just a few months ago.

I believe that we will still encounter plenty of head wind and that everything will not go back to the way it was anytime soon. However, I am starting to see that there's room for some companies to do well if they can adjust to the new appetite to buy more with less. Companies that have international sales are seeing an increase in sales thanks to a weakening dollar (*Source: 11/14/09 Wall Street Journal*). A weaker

Relative Strength of the Market:

POSITIVE

dollar makes our goods cheaper for foreigners to purchase. This may be the silver lining we've been looking for. If exports continue to do well, companies that are tied to this could help lead us to a stronger economy by having a trickle down effect to help domestic companies; which could help get Americans back to work which will lead to more spending.

With this seemingly good news, we must not forget that there is still risk and we shouldn't abandon our long-term investment objective by getting more aggressive. Our portfolios remain diversified between stock (U.S. and international), bonds (Government and corporate), and cash. Our highest Beta currently is 0.65. This means, in theory, that we are taking on 35% less risk than the S&P 500. Our portfolios have seen a nice recovery and the exciting part of this is that we have done this with considerably less risk.

As this year comes to an end, I want to thank every one of you for your continued confidence in us. We know that the past two years have been challenging, to say the very least, and that you have many choices with whom you chose to work

(continued on next page)

Have retirement and/or financial questions?

Please e-mail your questions to Jeff@TownsendRetirement.com and we'll address them in future newsletters.

DECEMBER 2009 RETIREMENT REPORT

Newsworthy Items

Deepest Snow in Colorado

In 1899 Crested Butte recorded 254 inches of snow near the top of Kebler Pass. That year, snow buried a train near Leadville and left only stove pipes showing above the cabins at many mountain towns. Usually Wolf Creek Pass near Pagosa Springs gets the most snow in Colorado.

We have recently developed a relationship with Fidelity Investment Company to custodial our Townsend Management Account Program (T-MAP – our fee only platform).

One of the largest benefits to our clients is that Fidelity offers us access to thousands of investment choices from the country's strongest and most recognizable companies. To learn more about the benefits of T-MAP, simply call us during normal business hours.

The IRS has a video channel on YouTube.

The channel, which can be found here www.youtube.com/irsvideos, covers a variety of topics, ranging from tax provisions of the American Recovery and Reinvestment Act to withholding calculators.

The annual contribution cap for 401(k)s, 403(b)s and 457s will stay at a maximum of \$16,500 for 2010. If you are 50 years old or older, you can add another \$5,500.

The Federal Deposit Insurance Corp. (FDIC) has published a new brochure.

The brochure, which can be found here: www.fdic.gov/bank/individual/failed/borrows, explains what to expect if the bank that holds your mortgage or car loan fails and the FDIC acquires its loans.

More households are at risk of being unable to maintain their standard of living during retirement, according to the Center for Retirement Research

Monthly Market Commentary — Continued

with. The fact that you have chosen us to manage your life savings and continue to refer your friends to us means a great deal and we are honored.

From everyone here at Townsend Retirement Specialists, we want to wish you and your families a happy holiday season and a happy, healthy and prosperous 2010!

If you have any questions or concerns about your accounts, like always, you are invited to call us. If your advisor is unavailable, please feel confident in speaking with Tiffany Brown or Debbie Macey, our Planning and Research Specialists.

The forgoing information and opinions are for general informational purposes only. The Registered Representative does not guarantee the accuracy and completeness, or assume liability for loss that may result from the reliance by any person upon such information or opinions. Such information or opinions is subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or offering of individual advice.

UPCOMING EVENT

January Client Conference

January 21, 2010

The Westin Westminster

6:00 p.m.

Please RSVP to
Terri Kelley
303-452-5986

Market Commentary

Sign up for our free weekly market returns on our website by selecting the **Market Commentary** button at www.TownsendRetirement.com

Performance Reports

Register for 24/7 access to your accounts with us including up-to-date performance reports.

We will notify you when your quarterly performance reports are available as well. Go to

“Performance Reports Access” which can be found under the **“For Clients”** tab on our website www.TownsendRetirement.com.

Be sure to call our office if you have questions or need help.

Do you know anyone who would enjoy our monthly newsletter?

Please send them to our website www.TownsendRetirement.com and have them sign up for our FREE monthly newsletter.

Do you know anyone who could use our help? If so, do your friend a favor and invite them to one of our workshops or have them call us for a complimentary consultation.

Financial Trivia

When did the Dow Jones Industrial Average first close over 100 ?

(See next page for answer)

Roth IRA Conversions: Is it Right for You?

By: Jeffery E. Townsend, CRPC®

To convert or not to convert is the question we are hearing from many of our clients. The answer isn't as simple as it may seem. I attended a class in Omaha, back in June, that specifically addressed this question. I went in very excited about the prospects of converting my own IRA and benefit from the tax-free income down the road; there are no minimum distribution requirements at age 70½ and at my and or my wife's death the balances go to our beneficiaries income tax-free. However, as I found out there is a lot to consider before doing the conversion.

One of the attractive aspects of converting an IRA to a Roth IRA is that, beginning in 2010, Roth conversions no longer have an income limitation; although regular Roth IRA contributions are still limited to those with modified adjusted gross income less than \$169,000 for married couples filing jointly and \$116,000 for singles (source: www.irs.gov). Another attraction is that the taxes due on the conversion, if done in 2010, are not due right away. You can actually spread the tax liability over 2011 and 2012 with no taxes due in 2010. This bit of information is what attracted me to take the class.

The most important aspect, one needs to keep in mind, is that even though taxes are not due immediately, taxes are still due.

So, now that we can soon convert regardless of income, let's dive into some questions so that you can make an informed decision.

- **Your anticipated tax bracket after retirement**—If you will be in a higher tax bracket in retirement, converting to a Roth could make sense.
- **The impact the recent market decline has had on your portfolio**—With many accounts lower today, you would pay less tax than if the accounts were higher.
- **Whether your Traditional IRA has been funded with before or after tax dollars or both**—Any after tax dollars would not incur taxes on a conversion.
- **The pros and cons of a partial conversion versus a full conversion for your situation**—One doesn't need to convert their entire IRA. It could make sense to convert no more than what is

needed to keep you in a certain tax bracket; however, to have the ability to spread your tax liability over 3 years the conversion needs to be done in 2010.

- **Whether the conversion, because it is considered income, will push you into a higher tax bracket or make you subject to the Alternative Minimum Tax**—This may be the most overlooked factor. Based on the average size IRA we manage one would probably be pushed into the highest tax bracket, which is currently 35% (plus don't forget state income taxes).
- **Where will the money come from to pay the taxes that will be due from the conversion**—Based on our calculators a Roth conversion seems to make much more sense if the taxes are paid from non-IRA funds. As an example, if you did a \$600,000 conversion you might pay about \$210,000 in taxes (assuming a 35% tax). If the \$210,000 comes from the IRA, it will leave \$390,000 as a balance in your Roth IRA. Assuming your normal or current tax rate is 25% and you withdraw 5% from a regular IRA your net income would be \$22,500. If you withdraw 5% from the Roth IRA after the conversion you would receive \$19,500. However, if you use non-IRA funds to pay the taxes this scenario changes. The tax free income from the Roth IRA would be \$30,000.
- **The number of years until you'll need income from the account**—A Roth IRA must be in existence for five years before you can receive any withdrawals tax free. Keep in mind, any withdrawals prior to age 59½ could result in a 10% penalty. If a conversion is in your future and you will need income or withdrawals prior to five years, a partial conversion may be the best strategy.

Your decision, to convert or not to convert, will depend on many factors of your individual situation today, your beliefs about future tax rates, and your personal tax situation. Careful analysis should be done before making a conversion. We can work with you and your tax advisor to provide guidance and analysis. Call our office (**303-452-5986**) to schedule either a phone or in office appointment.

Newsworthy Items

at Boston College. The latest index shows that 51% Of Americans aren't prepared to retire at age 65, up from 44% in 2007, when the index was last updated. Retirement planning is more important now than ever.

The value of an employee's unused leave can be transferred to a 401(k) plan annually instead of being paid out says the IRS. However, the amount can't exceed an employee's annual contribution cap.

If you have not maxed out your 401(k) contributions for 2009, you can trim your tax liability by maximizing your pretax contribution to your 401(k) before the end of the year. Check with your HR representative to see if you can forego your last paycheck and add it to your plan.

We welcome the opportunity to get to know any of your friends, family members or business colleagues you think may benefit from learning about our services. Please call Terri Wolfe and she'll take care of the rest.

Attention Golfers

Remember to call **Terri Kelley** at **303.452.5986** to arrange your tee times at either Legacy Ridge or Heritage Golf Courses. Make arrangements to golf with an advisor and be sure to invite your referral friends. Our corporate membership allows us to schedule a foursome every day.

Answer to this month's financial trivia question:

January 12, 1906, when it closed at 100.25.

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DECEMBER 2009 RETIREMENT REPORT

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For Performance Results, Profile Updates
or Questions on Your Accounts:

Tiffany Brown X 209

Debbie Macey X 206

For Scheduling Appointments or Golf:

Terri Kelley X 203

For Client Billing:

Tami White X 229

We have new e-mail addresses

Please be sure to update our addresses if you have them saved in your e-mail contact address book.

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The old e-mail addresses (i.e. jtownsend@myplanningpartner etc.) will be active until the end of the year.

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www.TownsendRetirement.com

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DECEMBER 2009 RETIREMENT REPORT

Cayle's Connection — Cayle Townsend

Blossoms of Light returns to the Denver Botanic Gardens December 4 through January 3. Over one million colorful lights will be draped in elegant designs to highlight the Garden's winter beauty. Ice sculptures are a new feature this year and the shop will be open for those looking for last minute gifts. Seasonal entertainment will be available on select evenings. www.tiny.cc/xKS8S

Zoo Lights is December 12 – January 4. Some of the animal exhibits are open and Santa will be there for visits from the naughty and the nice. www.tiny.cc/HX5xA

The 2009 Georgetown Christmas Market is December 5, 6, 12 and 13. The town transforms for two weekends into a bustling Christmas scene, reminiscent of Christmas of long ago. You'll find roasted chestnuts, holiday shopping, horse-drawn wagon rides through historic Georgetown, and wonderful sights and smells. Visitors enjoy appearances by St. Nicholas in his traditional dress and the daily procession of the Santa Lucia, as well as carolers in Victorian costume, dancers, and other family entertainment. www.tiny.cc/F5gkr

The Olde Golden Christmas and Candlelight Walk is held every weekend between Thanksgiving and Christmas. Each Saturday starts with a traditional holiday parade and continues with strolling musicians, free horse-drawn carriage rides, and tasty treats provided by the stores. www.tiny.cc/nyTk4

A Christmas Carol plays at the DCPA November 27 – December 26. www.tiny.cc/asdpS

Denver Christkindl Market is November 27 – December 24. There will be vendors from Germany and other European countries as well as local artisans who offer quality, handcrafted gift items such as traditional hand-carved wooden figurines, handmade candles, and ornaments. Traditional German food, pastries, and candy as well as authentic German beer and Glühwein will be featured. www.denverchristkindlmarket.com

The Nutcracker will be performed throughout Denver. *I found several:* **The David Taylor Dance Theatre** www.dtdt.org; **The Ellie Caulkins Opera House** www.tinyurl.com/yeogefo; **The Great Russian Nutcracker** www.tiny.cc/Dv3kZ
Performance times vary, so consult their web sites for more information.

Tired of the Christmas shopping and planning and just need a beer? The **Denver Microbrew Tour** might just be for you! On Friday afternoons throughout December (and into January) you can join this two-hour guided walking tour of Denver's historic LoDo area. Learn about the history of beer, how it is made, different types and why Denver has been called the Napa Valley of Beer!
www.denvermicrobrewtour.com

Denver Disney On Ice: World of Fantasy tickets are available. Shows are December 11 – 13. www.tiny.cc/BT97D

Little House on the Prairie, the Musical (complete with Melissa Gilbert as Ma), will play December 15 – 27 at the Buell Theatre. www.tinyurl.com/aotvsz

The 9th Annual Candy Cane Festival is Dec 12 at Hammond's Candies. Sample candy made fresh before your eyes during the free tours of the candy factory. Have your picture taken with Santa Claus and listen to Christmas carolers and storytelling. Other events include trolley rides, gingerbread cookie decorating, carnival games, crafts, face painting, moon bounce, and food vendors.
www.hammondscandies.com

As for New Year's Eve... I Googled this topic and got so many responses I didn't know where to start. I'm guessing you can also Google it and find something that will make your night special.

Thank you for your wonderful emails and support this year. I'm looking forward to another year with fun things for you to do with your family and friends. If you've discovered something in Denver that's good to share, let me know and I'll include it.

January's column needs your help! I'd like to showcase all the truly wonderful charities and volunteer opportunities that you are involved in. All you need to do to get your favorite listed is email me! Give me a brief description of the organization and contact information. Let me know if I can use your name as the person recommending it and I'll get it in.

Happy Holidays!

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When Can You Deduct Your Hobby?

By: Michele Knight, CPA (www.cpamichele.com)

It is no secret that the Internal Revenue Service is under the gun to make sure they are collecting as much taxes as possible in this time of economic crisis. Their newest focus: taxpayers deducting expenses for “businesses” that are really hobbies. According to IRS Section 183, a taxpayer can only deduct expenses in a profit-seeking business, not activities conducted primarily for personal pleasure. In English, you ask? This means that if you breed horses and try to take the deduction on your tax return, the obligation falls on you to prove that your endeavors are intended to make a profit, and not just a means of deducting expenses for an activity you find pleasurable.

This law is not new. I’m sure that hundreds of thousands of people deduct small businesses each year with questionable profit motives, but until now, the IRS turned a blind eye. However, a 2007 report by the Treasury Inspector General for Tax Administration suggests that billions of dollars a year in tax revenues is lost to improper deductions of this nature. Following this report, the IRS developed a new Audit Technique Guide which is like posting a billboard that says, “We’re Coming for You!”

An Audit Technique Guide is a manual intended for IRS agents, but shared with the public and provides a wealth of information for taxpayers on what to do to avoid trouble with the IRS. These guides provide detailed descriptions of what auditors would be looking for during the course of an audit, and auditors are trained to stick to these guides. This is great news for the taxpayers because if you can set up your business so that you meet all the criteria specified in the audit guide, you have a much better chance of sliding right through an audit.

The IRS has 2 ways of targeting these businesses: type and tax consequences. The most commonly scrutinized businesses are horse and dog breeding, yacht chartering, airplane leasing, gambling, photography, fishing, stamp collecting, bowling (yup, I said bowling!), writing and farming. The IRS also singles out returns that contain a Schedule C with losses that offset income from a day job or investments. My belief is that they can’t get blood from a turnip (a return showing business losses but no other sources of income), but they hope that if they catch an individual with income they will be able to garnish that income to collect more taxes.

So, what should you do if you have a business that falls into this category? I recommend that you look up the Audit Technique Guide on www.irs.gov and check out the questions that you need to be prepared for. While the guide is quite long, there is a section with questions that I’ve summarized below:

- Did the business show a profit, no matter how small, in three of the past five years?
- Does the business keep good records and operate in a businesslike manner? Auditors often ask for a written business plan and if the business has its own bank account.
- Does the taxpayer have expertise in the area of business, and do they hire outside professionals in other areas?
- How much of the taxpayer’s time and effort are involved, and are there elements of personal pleasure or recreation?
- Does the business have an internet presence or other means of soliciting customers? Believe it or not, the guide actually instructs the auditor to search **google.com!**

While these questions aren’t all-inclusive, they hopefully give you some good insight into what you should think about when forming a small business. While no one wants an audit, taking initial precautions when setting up and operating a small business can save you from a big fight in the future!

For more tax tricks and tips, please visit my web site at www.cpamichele.com or call **303-598-4413** to schedule an appointment. Michele Knight is not affiliated with the Securities America Companies.