Duane E. Lee, II
Cannon Financial Institute,
CWS, AFIM, AIF, CTFA
Executive Vice President
649-4 South Milledge Ave.
Athens, GA 30604
Off: 706-353-3346
dlee@cannonfinancial.com
www.cannonfinancial.com

"It's not that we plan to fail, it's that we fail to plan."

In this issue:

Time to Consider Year-End Investment Moves

What to Do When Layoffs Loom

2009 Year-End Tax Planning Considerations

What is a Build America Bond (BAB)?

CANNON FINANCIAL INSTITUTE

Duane's Capital Ideas

Strengthening your financial future

November 4, 2009

Time to Consider Year-End Investment Moves

Taking time to make some strategic decisions before December 31 can help keep your portfolio on track and potentially minimize your April income tax bill.

Review and rebalance

A portfolio review can tell you whether it's time to adjust your holdings. If one type of investment has suffered, it might now be a lower share of your overall assets than you intended, and could represent a buying opportunity. The traditional way to rebalance is to sell investments in an asset class that has done relatively well and use the proceeds to buy others that will return your allocation to its intended balance. (Don't forget tax considerations before rebalancing.)

If you're uncomfortable selling assets that have performed well, you could direct any new investments into an asset class that now represents less of your portfolio than it should. Diversification and asset allocation don't guarantee a profit or protect against a possible loss, of course, but they're worth reviewing at least once a year. Your checkup also can help you decide whether it's better to do any rebalancing before or after December 31.

Consider harvesting losses

Examine the tax consequences of any capital gains or losses you've experienced this year. Though tax considerations shouldn't be the sole driver of your investing decisions, taking steps before year-end can help manage your taxes. If you have realized capital gains beyond any tax losses carried forward from previous years, you can sell losing positions--known as harvesting losses--to offset some or all of those gains. Any losses over and above the amount of your gains generally can be used to offset up to $3,000 of ordinary income ($1,500 for a married person filing separately) or carried forward to offset future gains.

Before selling an investment, consider how long you've owned it. Assets held a year or less generate short-term capital gains and are taxed as ordinary income. That tax rate could be as high as 35%, not including state taxes. Long-term capital gains on the sale of assets held for more than a year generally are taxed at lower rates: 15% for most investors, 0% for individuals in the 10% and 15% tax brackets (for 2009 and 2010).

Time trades carefully

If you're selling to harvest losses and intend to repurchase the same security, wait at least 31 days to buy it again. Otherwise, the trade is a "wash sale," and the tax loss will be disallowed. The wash sale rule also applies if you buy an option, sell a stock short, or buy it through your spouse within 30 days before or after a sale of the same security.

If you're considering purchasing a mutual fund outside of a tax-advantaged account, find out when the fund will distribute dividends or capital gains. Consider postponing action until after that date, which is often near year-end. If you buy just before the distribution, you'll face potential taxes on that money, even if your own shares haven't appreciated. If you plan to sell a fund, you may be able to minimize taxes by doing so before the distribution date.

Think about your cost basis

If you own a stock or fund and decide to unload some shares, your cost basis can affect your tax liability. You can use the average cost per share for a mutual fund. Or you could request that specific shares be sold--for example, those bought at a certain price. Which shares you choose depends on whether you want to book capital losses to offset gains, or keep gains to a minimum to reduce your tax bite. (This applies only to shares held in a taxable account.)

What to Do When Layoffs Loom

Getting laid off sometimes seems to be inevitable, but short of going out of business, employers usually keep employees who are most valuable and productive. Here are some things you can do to increase your value to your employer and enhance your prospects of avoiding that next round of layoffs.

Separate yourself from the pack

If a layoff is in the offing, try standing out from other employees through your effort and performance. By the same token, aim to be helpful and maintain a good working relationship with your coworkers.

One surefire way to separate yourself from the majority of your fellow employees is to concentrate on work while you're on the job. Sounds simple, but it's easy to get distracted by activities unrelated to work. It's especially easy to get distracted if your employer is experiencing some difficulties. Workers tend to become less productive when their employer faces business downturns. You can stand out during these times by doing more.

Make yourself more visible

Standing out also means making yourself as visible within the company as possible. Attend staff meetings and company events, even if they're not mandatory. Arrive on time and be prepared. Participate during staff meetings, even if it's simply to express support for someone else's idea or proposal.

You'll also get noticed if you volunteer for tasks and projects whenever you can. Let your boss know you're willing to assume more responsibilities and spend more time at your job. If your boss offers you extra tasks and responsibilities, seize that opportunity to separate yourself from the rest of the pack. And if there are no new assignments, come up with a project on your own. Make your boss look good while adding value to your position.

And don't shy away from discreetly communicating your accomplishments. Periodically update your boss on progress you're making with a new task or project. It's another way to demonstrate your value to the company.

Increase your education

You can also stand out by continuing your education. Demonstrate that you're trying to enhance your job skills by taking advanced courses, even if your employer isn't paying for them. But if your company offers tuition assistance or programs to defray education costs, take advantage of those opportunities. The more you know, the harder it will be to replace you.

Dress for success

How you dress can leave a lasting impression as well. If you interviewed for your job, you probably dressed in a manner befitting the position for which you were applying. Thereafter, your attire may have become more casual. While overdressing isn't recommended, spruce up your wardrobe with some new work clothes. Look well-groomed and ready to work. Sometimes a change in your work attire gives your bosses the perception of a new, reenergized employee.

Change jobs within the company

Another way to keep your job is by working in a department that's performing well. Depending on the size of your company, some areas may be underperforming, while other sections are surging. Find out which departments are holding their own and which sections are lagging. If you're in an area that's performing up to par or better, now's not the time to ask for a change.

But if you happen to work in an underperforming sector, try to be part of the solution and not the problem. Don't complain about what's not working; rather, try to figure out what you can do to enhance your department's performance. In addition, offer to spend time working with growth segments--even if on a voluntary basis. If a position becomes available in a department that's prospering, consider making an internal move to that area.

As a last resort

Despite all your best efforts, if your boss tells you your job is on the chopping block, you may be able to keep your position by offering to take a pay cut or a reduction in hours. If the company really values your performance, they may be able to justify keeping you on at a reduced cost. You may then be able to hang on until the company is in a better position to increase your pay or hours. This would allow you to continue to work while you map out your strategy for a different job, either with your current employer or with a new company.

Know your rights

Layoffs may be inevitable, but they're not always legal. There are federal and state laws that protect employees from unfair job dismissal. Some laws make it illegal to dismiss an employee based on age, race, color, gender, pregnancy, religion, national origin, and disability.

2009 Year-End Tax Planning Considerations

Here are some things to consider as you weigh potential moves between now and the end of the year.

Year-end moves and the AMT

Deferring income to next year--for example, by delaying a year-end bonus--is a common year-end tax planning strategy. Similarly, individuals often look for ways to accelerate deductions into the current year--for example, by paying deductible expenses in December rather than in January. If you're subject to the alternative minimum tax (AMT), however, these traditional year-end maneuvers may actually hurt you.

Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions, making it a significant consideration when it comes to year-end tax planning. For example, if you're subject to the AMT in 2009, prepaying 2010 state and local taxes won't help your 2009 tax situation, but could hurt your 2010 bottom line.

Legislation earlier this year forestalled a dramatic spike in the number of individuals subject to AMT by temporarily increasing AMT exemption amounts for 2009. If you're one of the millions of individuals still expected to be subject to AMT in 2009, however, that won't be much comfort. Taking the time to determine whether or not you may be subject to AMT before you make any year-end moves can save you from making a costly mistake. If you're not sure, talk to a tax professional.

RMDs suspended for 2009

When you reach age 70½, you're generally required to start taking required minimum distributions (RMDs) from any traditional IRAs or employer-sponsored retirement plans you own. Individuals are required to take these distributions each year, withdrawing the minimum amount by the end of the year (individuals who turn 70½ during the year generally get until April 1 of the following year to take their first RMD).

Legislation in late 2008, however, suspended RMDs for 2009. (This suspension of RMDs also applies to amounts required to be paid to beneficiaries after an IRA owner's or plan participant's death.) This presents an opportunity for those normally required to take RMDs to postpone the receipt of taxable income.

2010 Roth conversion rules

It's also worth looking ahead to the special rules that will apply in 2010 when a traditional IRA is converted to a Roth IRA. Current limitations based on income and filing status that prevent many individuals from converting to a Roth IRA will be eliminated. Additionally, if you convert in 2010, half the income that results from the conversion can be reported on your 2011 federal income tax return and half on your 2012 return.

This 2010 conversion opportunity might influence your 2009 year-end planning. For example, if you're currently working but aren't eligible to contribute to a Roth IRA, you might consider making nondeductible contributions to a traditional IRA for 2009 in anticipation of making a conversion in 2010.

Also worth noting

- A tax credit up to $8,000 is available in 2009 for qualified first-time homebuyers (only home purchases before December 1, 2009, qualify).
- The first $2,400 of unemployment compensation received in 2009 is excluded from income for federal income tax purposes.
- If you itemize deductions, 2009 is the last year you'll have the option to deduct state and local sales tax in lieu of state and local income taxes.
- The temporary deduction for sales and excise tax relating to the purchase of a qualified new automobile, light truck, or motorcycle applies to vehicles purchased through December 31, 2009.
- The above-the-line deduction for qualified tuition and related expenses expires at the end of 2009.
- The provision allowing small businesses to take an additional 50% in first-year depreciation expires at the end of 2009; the expanded $250,000 Section 179 expensing limit for small businesses also expires at the end of 2009.

Stay informed

It's always possible that legislation late in the year could extend some of the provisions above, or add new wrinkles--so stay informed. A financial professional can help you evaluate your situation and determine which year-end moves make the most sense for you.

AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

Duane E. Lee, II
Cannon Financial Institute,
CWS, AFIM, AIF, CTFA
Executive Vice President
649-4 South Milledge Ave.
Athens, GA 30604
Off: 706-353-3346
dlee@cannonfinancial.com
www.cannonfinancial.com

At Cannon Financial Institute, Inc., the program materials and instructor presentations are intended to provide program participants with ideas and guidance in the areas of planning, administration, and management. They are intended to stimulate thought and discussion. The materials and the instructor comments do not constitute, and should not be treated as, legal or other professional advice regarding the use of any particular planning technique, audit or compliance measure, policy, procedure or other such application of the information provided, or the tax consequences associated there with. Although every effort has been made to ensure the accuracy of the materials and the comments at the program, Cannon Financial Institute, Inc., and each instructor, individually, do not assume responsibility for any participant's reliance on the written or oral information disseminated during the program. Each program participant should independently verify all statements made in the materials and comments made at the program before applying them to a particular fact situation. Each participant should independently determine the tax, nontax, legal and fiduciary liability consequences of using any particular information before recommending that technique to their institution, its management, its board of directors, a client or implementing it on a client's behalf. The materials and the instructor comments should not be utilized as a substitute for professional service in specific situations. If legal, accounting or other expert assistance is required, the services of such a professional should be sought.

Prepared by Forefield Inc,
Copyright 2009

CANNON FINANCIAL INSTITUTE

Ask the Experts

What is a Build America Bond (BAB)?

Investors have a new way to invest in municipal bonds. The American Recovery and Reinvestment Act of 2009 authorized a subsidy for local and state governments that issue what are known as Build America Bonds (BABs) before January 1, 2011.

Unlike most municipal bonds, the interest payments you receive on a BAB are taxable on your federal income tax return. However, the federal government subsidizes 35% of those interest payments. That subsidy is made in one of two ways:

1. As a direct payment to the governmental body that issued the BAB, or
2. Via a 35% federal income tax credit on the net coupon interest to the bondholder

The governmental body that issues a BAB determines in advance which type of subsidy it prefers; so far, most governmental bodies that have issued BABs have chosen to do so using the direct payment method rather than offering the tax credit.

If you're interested in tax credit bonds, don't assume the credit automatically makes them more valuable than a fully taxable bond. Because both the bond's interest payments and the value of the tax credit will be included in your gross taxable income, the calculation depends not only on the coupon rate but also on your tax bracket. It's best to check with your financial professional to compare a BAB to both taxable and tax-free municipal bonds to determine which is the better choice for you. Any unused portion of a BAB's tax credit may be carried forward to successive years.

Before investing, make sure you know if a given BAB offers the 35% tax credit, and what it would mean given your tax bracket. Also, remember that even though the federal subsidy is designed to help lower local governments' cost of financing projects, it does not mean that the bond is guaranteed by the U.S. government, as Treasury securities are.

What is a refunded municipal bond?

In a time of falling interest rates, homeowners often try to refinance their mortgages to reduce their monthly interest payments. Issuers of municipal bonds often do something similar, issuing new bonds to pay off older debt.

The proceeds of the new bond or bonds can be used to replace a specific revenue source that was pledged to repay the interest and principal of older bonds (for example, a tax collected by the issuer or the revenues of a bond-funded project). The money received from issuing the newer bond is generally put into escrow and paid out over time as the older bond's obligations come due. Because the older bond no longer relies on its original funding source, but on the escrowed proceeds of the newer bond, the older bond is then considered a refunded bond.

Bonds that are refunded through their maturity dates are said to be "escrowed to maturity." The escrowed money is typically invested in or collateralized by U.S. Treasury securities timed to mature as the refunded bond's interest and principal payments are due. If a refunded bond's original documents include a call provision that allows the issuer to pay off the bond before its maturity date, the bond is referred to as a pre-refunded bond.

Because refunding typically occurs after interest rates have fallen, refunded bonds generally offer a higher coupon rate than equivalent newer issues, and often sell at a premium to their par value. Also, because they are backed by escrowed money that is typically invested in or collateralized by U.S. Treasury securities, they are generally considered high quality bonds, much as Treasuries are.

However, even though it may be backed by Treasuries, a refunded bond itself is not guaranteed by the full faith and credit of the U.S. Treasury. Also, municipal bonds are subject to the risks associated with any fixed income security, including interest rate risk, credit risk, and reinvestment risk. Reinvestment risk is even greater if a bond is callable, meaning it could be redeemed prior to the maturity date.