

tax & investment newsletter

October 2011

MONTGOMERY TAYLOR, CPA, CFP

If you don't know where you are going, any road will get you there. ~Lewis Carroll

Monty's Opening Thoughts...



Well, I'm happy to announce that our business has grown and grown. We've pushed out walls and expanded as much as our building would allow. But now we've hit the wall—really. And, the walls are closing in on us and cramping our style and ability to adequately serve you. So, after eight years in this location, **we're moving our office!**

We're not going far. In fact, it is only **15 seconds** up and across the street from where we are now. See the map in the side bar. The new address is **2880 Cleveland Avenue, Suite 2**. Our new office will be very easy for you to find. It is just south of, and right next door to the **Wells Fargo Bank**. You'll be pleased to know that the parking spaces are **BIG** and there are plenty of them.

Our planned move date is **November 1st**. But you know how moving goes... it may take a number of days and our phones and computers may be down for a day or two. So, please bear with us during the first week of November. Of course, I always have my laptop computer hooked up and will be monitoring our investments, so don't worry about that.

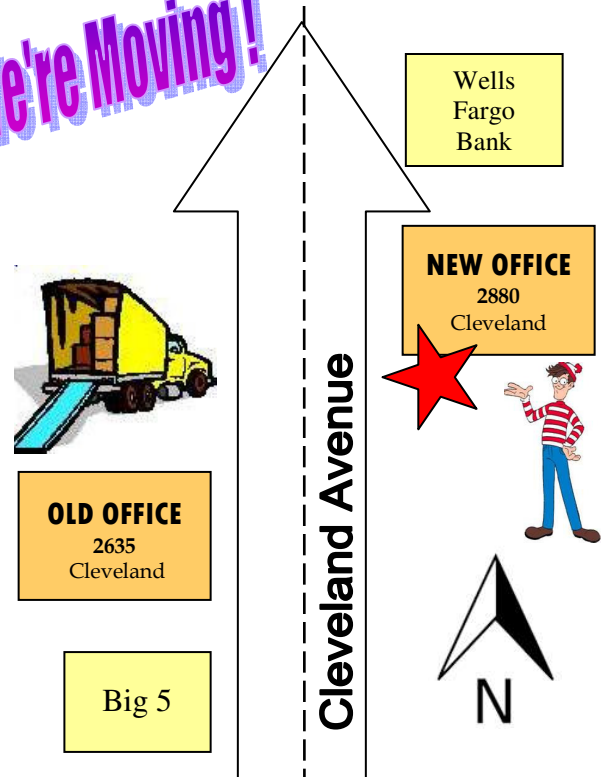
Once we get moved in and the dust settles a bit, we'll host an **open-house**, but that may not happen until December 2 or so. We'll let you know. Needless to say, we are all thrilled to be moving into a beautiful new office, custom designed for our business needs and **DOUBLE** the size of our current office space. We're expecting that this will allow us to better serve **YOU**—and that is what we're here for.



It wouldn't be proper of me to close out these thoughts... without acknowledging and thanking you for your patronage over the years. It is because of you that we continue to grow and push the limits of our space. So, **thank you for your business and for all the wonderful referrals you send our way.** We will bend over backwards to continue to earn and deserve your respect and your business.

Warm regards, *Monty*

We're Moving!



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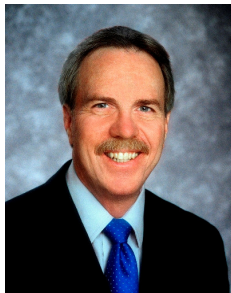
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STAFF NEWS



Welcome new additions to our staff . . . and to our family.



Gary Liess has joined our staff to serve in two growing areas of our firm. First, as a licensed professional in life insurance and annuities, he will counsel and analyze the needs of our clients in that area of their financial plan. Second, Gary will advise clients on how to pay for their children's college education. He will teach workshops on the subject of college financial aid planning and help families with the dos and don'ts of applying for financial aid and the strategic financial planning that must go along with it.

Prior to entering the financial services field, Gary had a broad array of business experiences, including being a commercial pilot, owning a North Bay wholesale distribution business, serving on the Board of a Santa Rosa internet startup company, and investing in real estate for his own portfolio.

Gary and his wife, Carolyn, have been Sonoma County residents for the past 30 years. In his leisure time, he enjoys sailing, playing golf, biking, gardening, cooking, wine making and traveling.

Rob recently vacationed in a lakeside cabin in Northern Michigan with his brother, Paul, who is also a tax preparer. The two brothers spent three weeks together researching the prospect of producing a musical based on the lives of Henry and Clara Ford. While in Michigan, Rob visited the birthplace of Henry Ford and assisted the docents in the Henry Ford Museum in assembling a Model T.

Barbara's son, Dylan, married his sweetheart, Brianna, on Sept. 17 in a beautiful outdoor ceremony surrounded by flowers at the Mendocino Coast Botanical Garden. Barbara is still on cloud nine from this joyful occasion, and she is thrilled to have Brianna as her new daughter-in-law. The wedding came just 2 weeks after Barbara returned from an amazing trip to France which included a river cruise down the Seine from Paris to the Normandy Coast. Un merveilleux sejour!



Jackie enjoyed Labor Day weekend at Lake Tahoe with her husband, Nick, her sister, Jessica, brother, Gary, and a few friends. She spent her afternoons at the beach tanning, swimming and even did a little shopping. The group enjoyed the beautiful Tahoe evenings by barbequing. A wonderful, relaxing trip!

I Have Confidence in Him; I Can Be At Peace



As someone who's retired, my biggest financial challenge is wondering if my money's going to last as long as I do. Monty does my taxes and takes care of my investments. He tells me if I need to do anything differently. He's taken what little money I have and he's not lost it. I have confidence in him . . . I can be at peace.

I really appreciate Monty very much because I trust him. I don't know much about taxes and investments, and I feel that because I work with Montgomery Taylor and Company, I don't have to know all this stuff.

My previous tax preparer did a good job, but there was no back-up. If I had a problem I would not have been able to get support from her. I felt like I needed somebody else to know what was going on – she was not enough. With Monty's service, I can come in and ask questions.

I have recommended Monty to several friends who always tell me they're so glad I recommended him. My daughter and her husband came to Monty and they like him, too.

The most compelling thing about doing business with Monty is the trust. He is somebody you can trust, and that is absolutely important.

Marian King, Retired Teacher, Sebastopol

Three-time Award Winner!
Check out Monty's blog at:
<http://blog.taxwiseadvisor.com>



Tax Strategy of the Month

“Here’s an idea I think will save you money!”

Should You Convert to a Roth Now?

And, don't be afraid to think outside the box on this!

Is converting a traditional IRA to a Roth this year a good idea? It depends on the situation.



Strategy: Weigh the pros and cons. Although taxpayers no longer can benefit from a special tax break for conversions in 2010, converting to a Roth still might be a smart tax move. Of course,

the conversion is subject to current income tax. The conversion technique often makes sense for high-income taxpayers who expect to be in the same or a higher tax bracket in retirement.

Here's the story: The main advantage that Roth IRAs have over traditional IRAs is that qualified distributions from a Roth in existence at least five years are completely exempt from tax. This includes distributions made after reaching age 59½ as well as distributions on account of death or disability or to pay first-time homebuyer expenses (up to a lifetime limit of \$10,000). In contrast, distributions from a traditional IRA are taxable at ordinary income rates. Also, you don't have to take required minimum distributions (RMDs) from a Roth IRA during your lifetime; with a traditional IRA, RMDs must begin after age 70½.

Example: Spreading out the tax liability

Let's say that Barbara McCutchen is a joint filer earning \$150,000 a year. She has \$500,000 in a traditional IRA. Barbara is currently in the 28% tax bracket, but expects to be in the 35% tax bracket when she retires in 20 years.



Assuming a 6% return, an online calculator shows that (on an after-tax basis) Barbara will have \$1,138,853 in her account at retirement if she converts to a Roth in 2011 (reducing the conversion by the amount of the tax). Conversely, if she keeps the funds in a traditional IRA, she'll have \$1,104,858 in 20 years, or \$33,995 less—this is the value of the conversion.

But remember that Barbara had to come up with the cash to pay her current tax bill of \$165,000. If it suits her needs, she can convert only part of the \$500,000 balance in her traditional IRA or use some of the IRA funds to pay the tax bill (although this reduces the overall tax benefit).

The extra taxable income triggered by a Roth conversion is added to ordinary income from other sources (e.g., salary, self-employment income, short-term capital gains, etc.). Therefore, if you convert an IRA with a large balance, it could push you into an even higher tax bracket. The conversion income might also affect other aspects of your tax return (e.g., education credits and other tax breaks that are based on AGI). Also, don't overlook what this extra income could do to your **financial aid eligibility**, if you have **kids in college**.



Another approach: Convert half of the traditional IRA this year and the other half next year. This division may avoid extra tax liability and the loss of other tax return benefits. In effect, you're spreading out the tax liability over two years.

Tip: No matter what, taxpayers have until Oct. 15 of the following year to recharacterize a conversion. That gives you until Oct 15, 2012, to undo a conversion made in 2011.

Thinking outside the box: This article is about cashing in your traditional IRA and then putting the money into a Roth IRA. But, if you really want to think strategically, where else might you put the money besides into a Roth? Well, putting it into a life insurance contract (the right one of course) can provide a very interesting, creative and powerful outcome. Definitely worth the analysis. (And yes, we can do that for you.)



Tax News You Can Use...



Contact us soon for a year-end tax review

An important part of our service to you is to help identify actions you can take before year-end to minimize your 2011 income tax bill. Accelerating or delaying income and deductions, contributing to retirement plans, and taking investment losses are just a few of the strategies you might want to consider. There are also tax credits that require careful planning or they may be lost. If you'd like to discuss tax-cutting options that fit your particular situation, please contact us soon for a year-end planning review!

Charitable contributions: More than just cash might be deductible

Many taxpayers give much more than just cash to their favorite charity. Many also provide their time, travel, meals, and other "out of pocket" expenses in order to assist the charity in doing good work. And while you can't take a charitable deduction for your time, you are allowed to deduct other expenses incurred in support of a charity, such as vet bills for your local humane society, or wood and nails for a "habitat" charity.



Let's examine your house of worship. It's possible for members to deduct evangelism travel expenses, even if the charity (a church in this example) never initiated, controlled, supervised, or assisted with the trips. The church fostered missionary work in general. Before the trip, the church provided the taxpayers with letters of commendation serving as introductions to other interfaith groups during the trip. And after the trip, the charity publicized the member's efforts to the other congregations. This allowed the taxpayers to deduct mileage at the prescribed IRS rate, air fare, lodging, and meals while on their missionary trip.

Consider the potential deductions for those taxpayers involved as board members to a charity, or simply significantly involved. In a recent decision, the Tax Court noted "control"

by the charity is only one of the factors to be considered. You don't have to necessarily be controlled or directed by the charity to make your deductions stand up. But there should be a strong affiliation with the charity, and the taxpayer must be accountable to the charity.

There are recordkeeping requirements.

Noncash contributions greater than \$250 must be acknowledged by the charity. The taxpayer will likely have to request this from the charity with a simple form, one which the charity will be happy to complete in order to secure your deduction and advance the mission of the charity.

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☺ *Is your individual Tax Return on extension? Filing deadline is **October 17!*** ☺
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Consider four tax-smart ways to save for college

The cost of sending a child to college is daunting. According to the latest figures from the independent College Board, the total average cost for the 2010/2011 academic year – including tuition and fees, room and board, books and supplies, transportation and other sundries – for in-state students at four-year public colleges was \$20,339. For out-of-state students, the average cost jumped to \$32,329. The cost at four-year private colleges averaged \$40,476. And costs are expected to keep rising.



Nevertheless, you can lighten the financial burden of putting your children through school by taking advantage of certain tax-favored vehicles. These techniques are generally available to grandparents as well as parents. Here are four prime examples.

1. Section 529 plans: There are two main types of Section 529 plans. With a "college savings plan," you can make generous contributions to a special account established for a designated beneficiary. Every state offers its own versions of these plans. With the second type, you may arrange to pay future tuition costs in today's dollars through a "prepaid tuition plan."

Financial Strategy of the Month

“Here’s an idea I think will save you money!”



IS IT TIME FOR LIFE INSURANCE?

Important life events may call for it.

Many people between the ages of 30 and 50 lack a will, and just as many also lack life insurance. A March 2011 survey from Genworth Financial and the University of Virginia’s Darden School of Business found that almost 70% of single parents and 45% of married parents were living without any coverage.

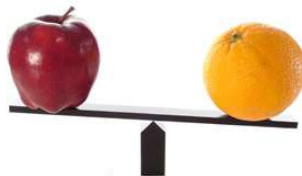
Why don’t more young adults buy life insurance? Shopping for life insurance may seem confusing, boring, or unnecessary. Yet when you have kids, get married, buy a house, or live a lifestyle funded by significant salaries, the need arises.

Finding the right policy may be simpler than you think. There are two basic types of life insurance: term and cash value. Cash value (or “permanent”) life insurance policies offer death benefits and some of the characteristics of an investment - a percentage of the money you spend to fund the policy goes into a savings program. Cash value policies have correspondingly higher premiums than term policies, which give you death benefits only and have terms of 10 years or longer. Term is a great choice for many young adults because it is relatively inexpensive. There is an economic downside to term life coverage: if you outlive the term of the policy, you and/or your loved ones get nothing back. Term life policies can be renewed (though many are not) and some can be converted to permanent coverage.

The key question is: how long do you plan to keep the policy? If you don’t want to pay premiums on an insurance policy for more than 10 years, then term life stands out as the most attractive option. If you are just looking for a short-term hedge against calamity, that’s the whole reason behind term life insurance. If you’re getting into estate planning, college planning or the ‘bank on yourself concept,’ then permanent life insurance will prove a better choice.

It may be cheaper than you think. Premiums on 10-year level guaranteed term policies are startlingly affordable. Just to give you a ballpark example, a 40-year-old woman could potentially line up \$250,000 in coverage through one major insurer for a premium of \$16 a month in August 2011.

Confer, compare and contrast. Talk with us before plunking down money for a policy. We can perform a term-versus-permanent analysis for you and help you weigh per-policy variables. We may even suggest a combined policy, which we do fairly regularly.



Many clients have been asking us about their life insurance policies and annuities. **Monty** does hold a license for life insurance so he can help clients acquire the right policy and not be sold something by some insurance agency mainly interested in the commission.

We’ve seen such growth in this area that we’re bringing another professional on to our team...

Gary Liess is a licensed life insurance and annuity expert with twenty-two years of experience in the financial services industry. Please see page two for more info on Gary.

You should be aware that life insurance and annuities are a very interesting part of financial planning. The problem we’ve found is that **many people have the wrong type of insurance or annuity** in place and it doesn’t integrate well into their over-all strategic plan. We can fix that. You can bring us your policies and we will do a **free analysis and inform you of the pros and cons of what you have.** It’s free. Don’t put it off. Call now (707) 576-8700.

Montgomery Taylor, CPA

Client Benefits:

1. Expert tax-saving advice as a regular part of your income tax preparation
2. Professional Service Warranty that guarantees you the largest tax refund possible with the lowest tax liability
3. Your tax returns completed within eight business days of when you provide all necessary data
4. Your phone calls returned promptly (any time of year), always within 24 hours
5. Help with allocating your 401(k) investment funds
6. Monthly ClientAdvisor Newsletter
7. Professional online tax advice anytime ~ mtaylor@taxwiseadvisor.com

**Platinum Tax Maintenance Program
2010 Member Benefits:**

1. ALL CPA Client Benefits listed above, **AND**
2. Three phone consultations (20 minutes each or a total of 60 minutes) during the tax year scheduled through our appointment desk
3. W-4 review to be sure your withholding is correct
4. Audit assistance in the event you are subject to an audit for the 2010 year, limited to four hours of service at no additional expense
5. Answer all IRS notices and correspondence you receive for 2010 tax year
6. Answer FTB notices and correspondence including Head of Household Audit Letter for 2010
7. 1 additional copy of tax year 2010 tax return
8. \$50 discount on our fall tax planning appointments scheduled through our appointment desk

**Montgomery Taylor & Company, LLC,
Registered Investment Advisor
Client Benefits:**

1. Independent, unbiased, investment advice on a fee-only basis (no commissions)
2. Investment management for any account size (no minimums)
3. Monthly account statements directly from Fidelity Investments
4. Quarterly performance reports and consultation meetings
5. Tax-sensitive investing strategies integrated with your financial planning
6. Monthly ClientAdvisor Newsletter
7. Weekly Economic Update e-mail communication

**College Plan Advisors, LLC
Client Benefits:**

1. Student Counseling and Assessment
2. Calculate Expected Family Contribution
3. College Funding Strategies & Planning
4. Complete your FAFSA Forms
5. Complete your CSS Profile Forms
6. Appeal/Negotiate Better Awards
7. Monthly Cash for College Newsletter
8. Monthly ClientAdvisor Newsletter
9. Weekly "Tip of the Week" E-Mails



Notes from Monty's private money management file...

Very few portfolio adjustments have been made in September. The S&P 500 Index has been zigzagging repeatedly back and forth from a high of 1215 to a low of 1130. That is a big 7% swing from high to low during the month.

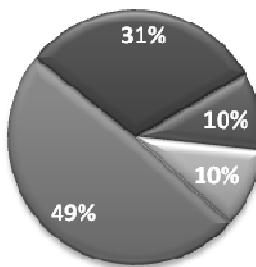


However, taking a broader view back at the charts reveals that since the big decline in early August, the market has just moved sideways within a fairly wide trading range. As I've stated before, I believe that the market is taking a breather from the big August decline and preparing itself for another similar leg down.

There are plenty of stock chart analysts out there predicting that we could revisit the summer 2010 lows on the S&P 500 at the 1025 level.

This is why I've continued to be under-weighted in stocks and over-weighted in cash. While most large cap investment managers are down this quarter, somewhat in line with the S&P 500, this Green Label Portfolio will only be showing a small loss. I adhere to a disciplined methodology that actively responds to economic changes – rather than the institutional approach of sticking to a set asset allocation through the ups and downs of the market.

As of August 26, the Green Label Portfolio was down -2.21% quarter-to-date, while the S&P 500 Index was down -13.25%. On a year-to-date basis, we are up 1.10% and the S&P 500 is down -8.75%.



The asset allocation is now at 49% Bonds, 31% Cash, 10% Commodities and 10% Stocks.

Wealth management services are offered through Montgomery Taylor & Company, LLC, a Registered Investment Advisor. Fidelity Investments is the custodian of our client accounts. While accounts are protected by the SIPC up to \$500,000, including cash claims limited to \$100,000, Fidelity provides supplemental protection that covers accounts over and above this SIPC coverage.



Monty's Money Message

Monty started his career in financial services about 30 years ago as a Stockbroker. He then became a Certified Public Accountant, Certified Financial Planner, Certified IRA Distribution Specialist and Registered Investment Advisor. With all these years of experience, he has a wealth of information to share with you about money and how you can prosper. Monty recently received the "America's Top Financial Planners" award of excellence from the Consumers' Research Council of America. Monty was selected from among his peers based upon years of experience, formal education and specialized professional certifications and designations achieved. In 2010, KZST Radio named Monty "The Only CPA We Trust" and chose him to be the tax expert for KZST listeners.

How Fat Will Your Retirement Paycheck Be?

(Have you heard the joke about the guy telling his wife, "If we take a late retirement and an early death, we may just squeak by."? Not amused? Then keep reading...)

Years ago, I spent seven years working as part of the management team of the Sonoma County Employees Retirement Association, overseeing the financial reporting, pension disbursements and investment management of their \$700 million pension fund. Every quarter, for seven years, I sat in on board meetings and investment committee meetings, taking in the investment philosophy of the big institutional pension and investment managers who we hired. I saw how institutions manage their money. (And, no, I did not create the pension plan or otherwise approve of it—if you've been reading the news recently.)



I learned that pensions set their asset allocation and then leave it—no matter what happens in the economy or how badly the stock market is performing. And, that does make some sense for a pension plan which has no time horizon. However, for you and me, we have time horizons and needs which could very well **not** coincide with the roller-coaster behavior of the stock market!

That's why I decided to do something about this—in my own business. I got the idea to create a retirement portfolio design which would **tactically adjust the asset allocation in sync with the ups and downs of the economy**. I further **designed an 'exit strategy'** because of how fragile the economy had become, causing some giant, well-regarded public companies to fail. The days of buying and holding, like our parents and grandparents did, is over. **We need to think and behave more strategically.**

There is one other important thing I did—also not done by other retirement planners in Santa Rosa. **I did away with the retirement planning software that would spit out a 30 page report** after inputting some basic client data. These software reports were confusing and therefore led to procrastination in making retirement decisions, which ultimately hurt the person trying to retire. I was able to condense the truly important data down to one, and in some cases two, pages of an Excel spreadsheet. **Now, you have an easily understood retirement projection which enables you to make sound financial decisions today.**

One last thing – I have found that many people are confused by all the retirement decisions which need to be made. And, it *can* be confusing. There are so many different pieces which need to be carefully knit together to form the safety net you must have to secure your retirement and peace of mind. So, I wanted a way, perhaps a resource that I could put into your hands which might eliminate some of the confusion, answer the basic questions, and be a valuable resource for you in the years to come.

I knew there had to be a resource out there for you – and I found it....



Announcing the free booklet: "Planning Retirement Income"

The sub heading of this booklet could be: "How to Stop Worrying About Your Future Pension Benefits and Simplify The Process Of Retiring In Comfort." Who says saving for the future has to be hard? This booklet can get you on the path to complete financial independence.

Inside this informative guide you'll discover:

- How to create an income stream for the rest of your life
- How to apply for Social Security and when
- How to tap into employer retirement plans
- How to make the right moves, if you continue to work and much, much more

Are you planning to retire in the next five years and ready to get serious about retirement planning? Call our office and we'll send you one of these booklets.

