CLARION [Klar'i-on] *adj.* brilliantly clear; loud and clear
(A clarion call to action)

ClearView Wealth Management

The Clarion

COVER STORY

Roth IRA Conversion In 2010 – Is It Right For You?

by Leslie Cannon

In 2010, eligibility for converting a Regular IRA (IRA) or a 401(k) from a previous employer to a Roth IRA (ROTH) has been expanded. Previously, conversions to a ROTH were restricted to those under certain Modified Adjusted Gross Income (MAGI) limits, which were $100K for individuals. As of 2010, the income limits have been eliminated.

Conversions to a ROTH will generate taxable income for deductible IRA contributions and the increase in asset values. In 2010, individuals have a special opportunity to defer paying taxes on the conversion to 2011 and 2012 tax years. Partial conversions are allowed.

ROTHs offer a number of benefits to reduce future taxable income for you or your heirs. While contributions to a ROTH are not tax deductible, withdrawals from a ROTH are income tax free, assuming the distribution is made after the individual turns 59½ and the ROTH has been in existence for at least 5 years. For those who expect to be in an equal or higher tax bracket at the time of withdrawal, a ROTH can offer the ability to reduce taxes on the withdrawal of appreciated assets. Additionally, ROTHs do not have Required Minimum Distributions (RMD) at age 70½, so if you don't need the cash, you can leave assets in the ROTH until you wish to withdraw them or you can bequeath the IRA to your estate.

What about Wealth Transfer? For those that wish to leave their ROTH to beneficiaries of their estate, the ROTH keeps on giving, as distributions to beneficiaries from their inherited ROTH also are tax-free. For those who anticipate having a taxable estate: a) a ROTH can provide a more efficient way of funding credit shelter trusts and b) paying taxes on the ROTH conversion now out of the estate will reduce the value of your estate and can reduce the taxes you will owe on your estate.

In contrast, while contributions to IRAs can provide a tax deduction in the year made, distributions from an IRA are taxable and RMDs are required once you reach 70½. Since the distributions are considered income, they can generate a tax on Social Security benefits. Also, distributions to beneficiaries of inherited IRAs are taxable.

Should you convert? There are a number of aspects to consider and circumstances will be different for each individual. It is important to understand that converting to a ROTH is not "all or nothing." Partial conversions are allowed and may make sense for those who wish to convert portions of their IRA or eligible 401(k) balances over time. While 2010 is the first year that eliminated the income limits, the conversion should be available for 2011 and beyond.

Here are some of the questions which can help frame your decision:

- Do you expect to be in an equal or higher tax bracket when you plan to receive distributions? Many pundits believe tax

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Client Corner

ClearView Wealth Management provides a broad array of financial services to individuals, families and businesses focusing on three key areas: Asset Allocation and Diversification in Non-Correlated Investments, Financial and Estate Planning and Tax Advantaged Investments.

We would like to congratulate the following new and returning clients who invested in one or more products in December as well as those that requested not to be listed.

Anna Bowlds
Peter Juvet
Neal & Janet Skok

Financial Services

- Tenant-in-Common Real Estate
- Delaware Statutory Trust
- Natural Gas & Oil Investments
- Managed Money
- Notes & Debentures
- Equipment Leasing
- Real Estate Funds
- Managed Futures
- Fixed Income
- Mutual Funds
- Annuities
- Cash Management Funds
- Life Insurance

rates will increase in the future. We are now at historically low rates which cannot be maintained.

- • What are the tax consequences to you if you convert in 2010? How will you pay for the taxes associated with the conversion?
- Do you have funds outside of your retirement accounts to pay the tax?
- Do you have a tax loss which could be used to offset the conversion tax?
- Do you wish to defer the taxes and pay them in 2011 and 2012?
- Do you want to leave your IRA to your heirs? Do you wish to reduce taxes due on your taxable estate?

How should you pay the taxes?

Conversion to a ROTH generates taxable income which includes the total of deductible IRA contributions you have made and the increase in value to regular income tax. Most experts agree that paying the tax from your IRA is not a good idea. This reduces your existing 'nest egg,' generates taxable income from the withdrawal and if you are under 59 ½, generates a 10% penalty for withdrawing IRA funds.

Defer the tax payment or not? As mentioned, a 2010 ROTH conversion offers a special opportunity to defer taxes and pay them in 2011 and 2012. Your anticipated income and tax bracket in 2011 and 2012 are key elements to consider when making the decision whether to defer the taxes. Many experts suggest paying the tax in 2010 because of expectations of higher tax rates in the future.

Finally, remember that partial conversions are possible and it may be the best option for those who do not wish to generate the tax liability of a full conversion and/or wish to spread out their conversion over time. Note that partial conversion rules can be complicated for those who have made non-deductible contributions to an IRA. The proportionate share of the non-deductible contribution amount to your total IRA value must be determined and used to calculate the taxable and non-taxable conversion amounts. IRS publication 590 has the information on this calculation and other conversion rules.

Conclusion.

The choice to convert to a ROTH is dependent on individual circumstances and expectations for the future. For those who are young with time to earn back the taxes paid up front and have their investments grow tax-free over their lifetime, a conversion to ROTH may be a fairly simple decision.

For those who are older, converting to a ROTH should include an evaluation of current tax impact, expectations of future tax rates and income and estate planning considerations. Inherited ROTHs offer tax-free income to your beneficiaries and are worth exploring for those who wish to maximize the value of their estate to their heirs.

The World Is Turning

Not A Prophecy, Just An Observation

Bob Cannon, President/CEO

As we grow older, many of life's lessons become clearer. For instance, we know there will be change and we know there will be adversity. Change itself is certain; how things will change and to what degree is unclear. Our experiences in life tell us there will be adversity, but we do not know when it will happen or how serious it will be.

The last couple of years have reminded us that the investment world is full of change and adversity. As veteran investors know, risk is our investment partner. Risk is sometimes defined as randomness without knowable possibilities. Statistically, risk equals the volatility of outcome. One thing that does not seem to change is that risk is associated with every investment - it is just a matter of to what degree. As one of my mentors once told me, "The investment world is a scary jungle. Don't ever let your clients go on safari without an experienced guide."

While it is impossible to predict the future with any certainty, it is possible to identify what is known about the future and make every effort to plan for those known events that are likely to be inevitable. For instance, we all expect to retire. There is a lot of uncertainty about retirement, but most of us hope to enjoy a long and happy retirement. A major factor determining the quality of our retirement will be our financial well being. The lead article in this issue of The Clarion addresses the ROTH IRA conversion process. This is a great example of planning ahead to take advantage of an opportunity presenting itself in the future. For many, the question will not be whether they should convert their traditional IRA(s) over to a ROTH, but how will they pay the tax. Conventional wisdom and most pundits say it is not advisable to pay the tax out of IRA proceeds.

Herein lays the opportunity to embrace change (the ROTH IRA conversion) and deal with adversity (paying the tax) by planning ahead, calculating the risk and determining if there is a solution suitable for you. Most people we talk to are not aware of the many tax benefits offered by certain gas and oil drilling programs. To stimulate investing by Americans in the development of this country's energy reserves, the government has historically offered a variety of financial incentives, including tax deductions and credits to companies and investors in gas and oil. These incentives vary from program to program and they are subject to change by Congress.

We never recommend making any investment solely for tax purposes and it is very important to consider each investment on its own merits after a close reading of the offering memorandum. But for many investors, converting to a ROTH IRA and offsetting the tax liability by an investment in a tax-advantaged energy product may be an appropriate solution.

As we move forward in 2010, it is imperative we all recognize that risk is associated with every investment we make and we can help mitigate and lower our investment risk by careful planning, studying each investment carefully, broadly allocating and diversifying our money into non-correlated investments, selecting investments suitable for our individual level of risk and trying to limit our investment risk at either the asset level or the capital structure – but not both.

As the world continues to turn, times will continue to change and adversity will be ever present. The recession may be over, but the economy has not recovered. If you agree with me that markets will continue to face difficult times and inflation looms in our future, please consider investing in hard assets that will appreciate with inflation and help keep your money working hard for you.

Bob Cannon

A Popular New Way To Invest In Real Estate – DSTs

Tenant In Common (TIC) investments became the method of choice in 2002 for real estate investors who were tired of managing their own properties. They were tired of the Terrible T's as we called them then: the trash, the tenants, the toilets, the time, the trouble and so on. They were done, finished, with personal property management. But they had a problem in making the transition into retirement because of the other Terrible T called taxes. The solution for many became evident in March of 2002 when the IRS issued Revenue Procedure Guideline 2002-22 stating that TIC investments satisfied their requirements for a successful 1031 exchange allowing for the deferral of all taxes due at the time of sale if the guidelines issued with the revenue ruling were followed.

The result was the evolution of a new industry. There was an immediate boom in the sale of closely held and personally managed investment properties followed by a 1031 exchange into TIC properties. From 2001 to 2007 the industry grew from $250 million of investor equity to over $4 billion. Along the way, several lawyers in the securitized real estate industry began to tout an alternative structure called the Delaware Statutory Trust (DST) they felt was superior to the popular TIC. In 2004 the IRS issued Revenue Ruling 2004-86 stating that DSTs were indeed a superior structure that met their requirements for a successful exchange without issuing any guidelines to follow. Soon, banks began to favor this structure and by 2009, DSTs became the structure of choice.

There are many reasons why this new structure is slowly replacing TICs. They are simpler, less costly to establish and operate, do not require the involvement of the investors to make critical management decisions, they are easier for the sponsor to operate, they give the sponsor more control over the property, and the lenders only have one entity, the Trust, to deal with instead of as many as 35 owners. Other benefits include up to 300 investors, and therefore, much lower minimums for investor participation.

Minimum investments are usually as low as $100k but some offerings have set the minimum at $50k for 1031 exchanges. These dramatically lower minimum investment requirements have enabled condo owners and people with substantially lower equity values due to the recession to sell their properties and successfully exchange into DSTs. Another unanticipated benefit has been the ability for cash investors to put smaller amounts, $20k or $25k, into DSTs and enjoy all the benefits of property ownership: planned monthly income from collected rents, depreciation and mortgage interest tax deductions, tax-deferred growth on the value of the investment and potential appreciation on the property when it is sold in years to come. Now that few banks are lending money to investors to buy investment properties, much of the money coming into DSTs this past year came from cash investments and not 1031 exchanges.

DSTs have slowly become the structure of choice among sponsors and lenders for securitized real estate transactions. Over the last two years, most of the new 1031 investment grade properties have been structured as DSTs. Now, many investors are also realizing the various benefits of broadening their portfolios by investing cash into DSTs to gain further asset allocation and diversification. You can learn more about DSTs by visiting our web site at www.cvwm.com and click on Products and Services, or by coming by the office to determine if a DST may be a suitable investment for you. These products are sold as securities and it is important to read the Private Placement Memorandum carefully to understand the potential risks and benefits associated with investing in DSTs.

As with any real estate investment, there are various risks including, but not limited to: loss of principal, variations in occupancy which may negatively impact cash flow, illiquidity and limits on management control of the property. Refer to the offering memorandum for additional risks before an offer to buy such security is made.

Money & Happiness

Do They Go Hand In Hand?

Provided by Bob Cannon

Does money actually buy a degree of happiness? In this recessionary holiday season, it is worth thinking about the effect money has on our lives. What role does money play in our happiness? Is that role overrated?

Most psychologists and sociologists will tell you that our happiness comes largely from social interaction. But studies indicate that there is a direct correlation between wealth and a kind of mental health.

As Pearl Bailey immortally quipped, "Honey, I been poor, and I been rich. And let me tell you, rich is better." Having a well-paying job, being successful at what you do – these are definite cornerstones of self-esteem and contribute to happiness.

So is Warren Buffett happier than we are? The math is not quite that simple. American wealth grew remarkably in the late 20th century, but surveys found that Americans on average weren't any happier than they'd been decades before.

A 2002 study by psychologists Edward Diener, Ph.D., and David Myers, Ph.D., documented greater happiness among residents of wealthy countries versus poor countries. But they found that once individuals in both types of nations gained the money to pay for basic creature comforts, happiness did not markedly increase along with wealth thereafter. A second 2002 survey by psychologist Tim Kasser, Ph.D., showed lower personal well-being in individuals who "bought into" messages of materialism and consumerism.[1]

Does spending money make people happy? It depends on the purpose. Perhaps you've heard of the "hedonic treadmill" theory, an economic theory which holds that the middle-class and the affluent exhaust themselves and diminish their happiness through endless pursuit of the latest material goods. Americans are proudly competitive and can't help but measure their wealth in relation to their friends and neighbors. We have to have more than the next guy.

Does spending money on others make people happy? Yes, according to the results of a study published in March in *Science* Magazine. They instructed 46 people to spend a $5 or $20 bill on a particular day. Some were told to spend the money on others and the study found those who did were happier at the end of the day than the ones who spent the money on themselves. The study also tracked 16 workers who got profit-sharing bonuses and observed that employees who gave a majority of their bonus to others ended up happier than those who spent it on themselves. In fact, the main forecaster of happiness was not the size of the bonus, but how it was spent. The Science study also discovered spending more money on gifts and charity correlated to increased happiness.[2]

Are we ultimately only as happy as we want to be? Perhaps. Researchers increasingly feel people have a genetic "baseline" or "set point" of happiness and deviations from this norm are temporary. In other words, how the stock market trends doesn't rattle our basic level of happiness. Even life-altering tragedies or seeming miracles ultimately don't budge us much from the norm. (Studies of the brain indicate people with more activity in their left prefrontal cortexes seem to be happier than some others.)

Recently, University of Virginia psychology professor Jonathan Haidt wrote a classically-rooted book called *The Happiness Hypothesis*. Haidt observed within a year of their life-changing experiences, "lottery winners and paraplegics, both alike, on average, have returned most of the way to their baseline levels of happiness." He feels happiness can grow

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Taxes And Their Effect On Retirement Income

We have all heard the old adage that there are two certainties in life: death and taxes. Every week it seems, we have a client talking to us about preparing for retirement and wondering what level of income they will have per year to spend in retirement without spending down their assets. Most financial planners seem to agree that if we spend no more than 5% (some will say 4%) of our gross invested assets (this excludes homes, cars, furniture, etc.) each year, we will out-live our money. My answer is: that all depends. There are many variables including how much you have saved and invested, whether the income from your investments is taxable or non-taxable, if you will have social security or a pension to supplement your income, the life style and quality of life you want to live in retirement, if you will have adequate medical insurance in retirement, how much if any you want to leave to heirs and beneficiaries, and much, much more.

Retirement planning is complicated and requires some thoughtful analysis. The process should start as soon as we begin working by saving, investing and paying into social security. There are no guarantees (except death and taxes, of course), but if we don't take action and plan ahead for retirement, it is highly likely we will work until the day we die.

So, what to do? First, save and invest wisely by fully investing annually in an employer's retirement plan. If your employer does not have a qualified retirement plan, you should open and fully fund traditional and ROTH IRAs to the maximum extent possible every year. Remember, pay yourself first. Your employer will take care of funding social security. If you are self-employed, make sure to pay social security taxes every year. Become a student of investing and learn the basics of how to invest and make your money grow through balanced investing, asset allocation and diversification. Learn about the power of compound interest, tax-deferred growth and tax-free income. Carry an appropriate level of insurance on your health, your life, your home and your automobiles to insure against catastrophic loss. Seek out and get good advice from a CPA, lawyer, banker and financial advisor. Plan ahead and then work the plan.

One of the most undervalued pieces to the retirement puzzle is understanding how taxation can impact the amount of income we will enjoy in retirement. Investing in retirement plans throughout our lives is critical. If we don't do it, we won't have any savings to spend. If we don't do it wisely, we will not have very much to spend. By investing in qualified retirement plans our money grows tax deferred, with the growth becoming taxable upon withdrawal in most plans. There is no substitute for decades of smartly invested and well managed contributions to qualified plans driven by compound interest and tax-deferred growth.

While it may seem hard to believe, the average historical top marginal federal tax rate from 1913 to 2009 was 60%, with the lowest at 7% in 1913 and the highest at 94% in 1944 and 1945, according to the Tax Policy Center. Many people believe taxes will soon be raised given the current economic and political climate. If an investment generates an 8% taxable yield, the net after tax yield for the current 35% tax bracket is only 5.20%. It is 5.36% for the 33% bracket and 5.76% for the 28% bracket. How do these current tax rates impact retirement income and our ability not to spend down our savings in retirement while withdrawing 4-5% per year? Imagine the impact

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Meet the Sponsors Seminars

We are pleased to announce our Meet The Sponsors seminar series. These events will be conducted in the metropolitan areas of Seattle WA, Portland OR and Chicago IL for the balance of the year. We will have three sponsors at each program. The sponsors' investment offerings will be non-correlated and we will diversify them broadly from month to month. You will be notified by e-mail of the events for the month at the beginning of each month. Upcoming dates and locations are on the last page of this newsletter. The seminar schedule will also be posted on our web site at www.cvwm.com. We look forward to seeing you at our events over the coming months.

CLEARVIEW PERSPECTIVE

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from "vital engagement" with other people and one's passions and from a spiritual and moral "coherence" in yourself and your life.[3]

How about some Gross Domestic Happiness (GDH)? No joke; since 1972, the government of Bhutan has dedicated itself to boosting GDH, Gross Domestic Happiness, via a platform of equitable and sustainable economic growth, cultural preservation in the face of the West, good government and environmentalism.[4] Other nations have studied Bhutan's example. In fact, conferences have been held on the concept in Bhutan, Mongolia and the Netherlands.

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Citations:

1 psychologymatters.org/happiness.html [3/26/04]

2 tierneylab.blogs.nytimes.com/2008/03/20/yes-money-can-buy-happiness/ [3/20/08]

3 happinesshypothesis.com/chapters.html [10/1/05]

4 nytimes.com/2005/10/04/science/04happ.html?pagewanted=all [10/4/04]

RETIREMENT

(CONTINUED FROM PAGE 6)

upon our retirement income should taxes be raised significantly.

Conversely, let's look at the power of tax-free income. An annual taxable equivalent yield of 8% is 12.31% for the 35% tax bracket, 11.94% for the 33% bracket and 11.11% for the 28% bracket. Please note that these calculations do not include state income taxes. As we can see, tax free income in retirement enables us to spend 5% per year of our invested retirement assets and theoretically not spend down our savings and deplete our net worth. These are some of the reasons many of our clients will be converting their traditional IRAs to ROTH IRAs in 2010 and 2011.

Please call us to discuss how tax planning can help improve your projected income during retirement and discuss the rules and procedures related to converting to ROTH IRAs.

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SEMINARS

Upcoming Seminars

Tuesday, March 09, 2010	**6:00 PM**	**Portland, OR**
Wednesday, March 10, 2010	**6:00 PM**	**Tacoma, WA**
Thursday, March 11, 2010	**12:00 PM**	**Bellevue, WA**
Tuesday, March 23, 2010	**6:00 PM**	**Chicago, IL**
Wednesday, March 24, 2010	**12:00 PM**	**Oakbrook, IL**
Tuesday, April 13, 2010	**6:00 PM**	**Bellevue, WA**
Wednesday, April 14, 2010	**12:00 PM**	**Bellevue, WA**
Tuesday, May 11, 2010	**6:00 PM**	**Portland, OR**
Wednesday, May 12, 2010	**6:00 PM**	**Tacoma, WA**
Thursday, May 13, 2010	**12:00 PM**	**Bellevue, WA**
Tuesday, June 15, 2010	**6:00 PM**	**Chicago, IL**
Wednesday, June 16, 2010	**12:00 PM**	**Oakbrook, IL**
Wednesday, June 23, 2010	**6:00 PM**	**Bellevue, WA**
Thursday, June 24, 2010	**12:00 PM**	**Bellevue, WA**