



The Year of the Roth IRA Conversion

Starting in 2010, all taxpayers, regardless of income, are eligible to convert tax-deferred retirement assets to a Roth IRA. Prior to the change, the law prevented taxpayers with household incomes above \$100,000 from converting assets to a Roth IRA. If you are among the nearly 50% of Americans who believe their own taxes are going to increase, you may be interested in the possibility of a tax-free income that a Roth IRA conversion can bring.²

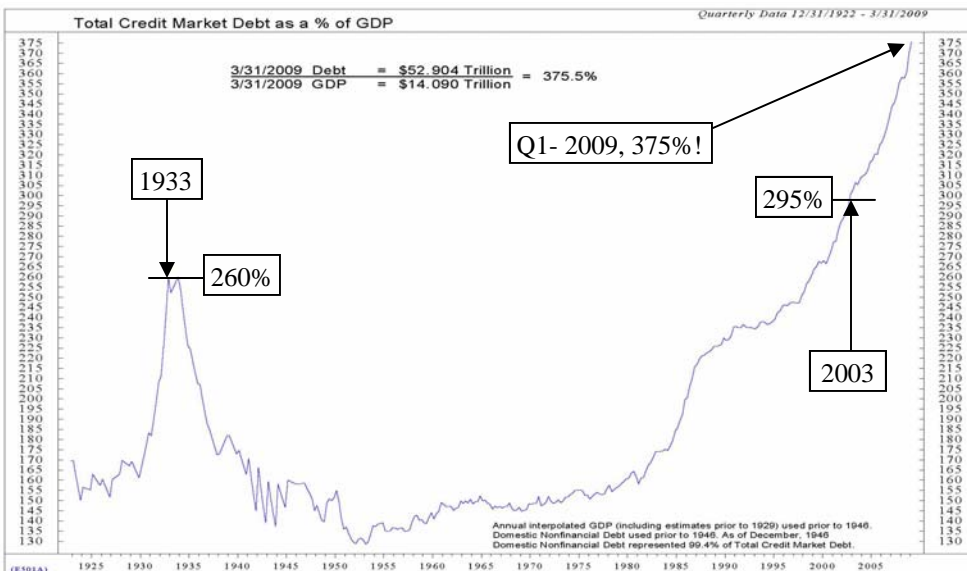
A Roth IRA is a retirement savings vehicle that differs from tax-deferred retirement accounts such as traditional IRAs and most employer-sponsored retirement plans. With a Roth IRA, you make contributions with after-tax dollars, but qualified withdrawals after age 59½ are tax-free. Furthermore, a Roth IRA does not require minimum annual withdrawals after age 70½. It should be noted that there are still annual income limits in place for determining eligibility to *contribute* to a Roth IRA. The income limitation was eliminated only for conversions.

To qualify for the tax-free and penalty-free withdrawal of earnings and amounts converted to a Roth IRA, the account must be in place for at least five tax years and the distribution must take place after age 59½ or as a result of death, disability, or a first-time home purchase (\$10,000 lifetime maximum).

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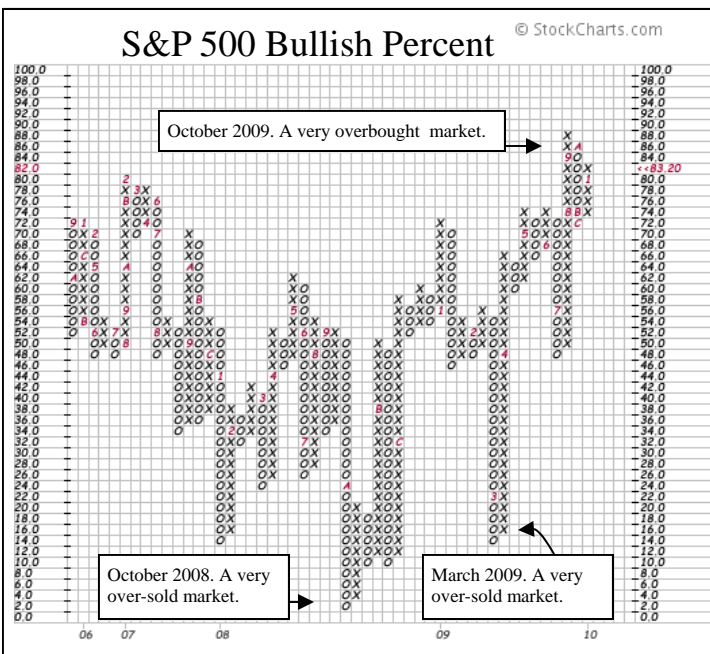
WHERE IS THE STOCK MARKET HEADED NEXT?

For any of our readers who are not familiar with our history, we began warning of a massive buildup of credit, and the subsequent economic fallout as early as 2003. This was based on many factors, but the most compelling example we found is shown below. Even back then, the total amount of credit (all U.S. government, corporate and consumer credit combined) had already eclipsed the levels that caused the last depression - 295% versus 260%. And as recent as the first quarter of 2009, the total amount of debt outstanding continued to rise, even through the 2007-2008 crisis. Indeed, the excess credit is the cause of all of our problems. The charts on the next page are more revealing over the near and far term conditions of the stock market. (Take note that in charts on subsequent pages, X's represent upward movement while O's represent downward movement).



IN THIS ISSUE...	
The Year of the IRA Roth Conversion.....	Page 1
Where is the stock market headed next?.....	Pages 1 & 2
Technical Charts for the S&P 500.....	Page 2
Interest Rates for the 30 Year Treasury Bond	Page 3
U.S. Dollar.....	Page 3

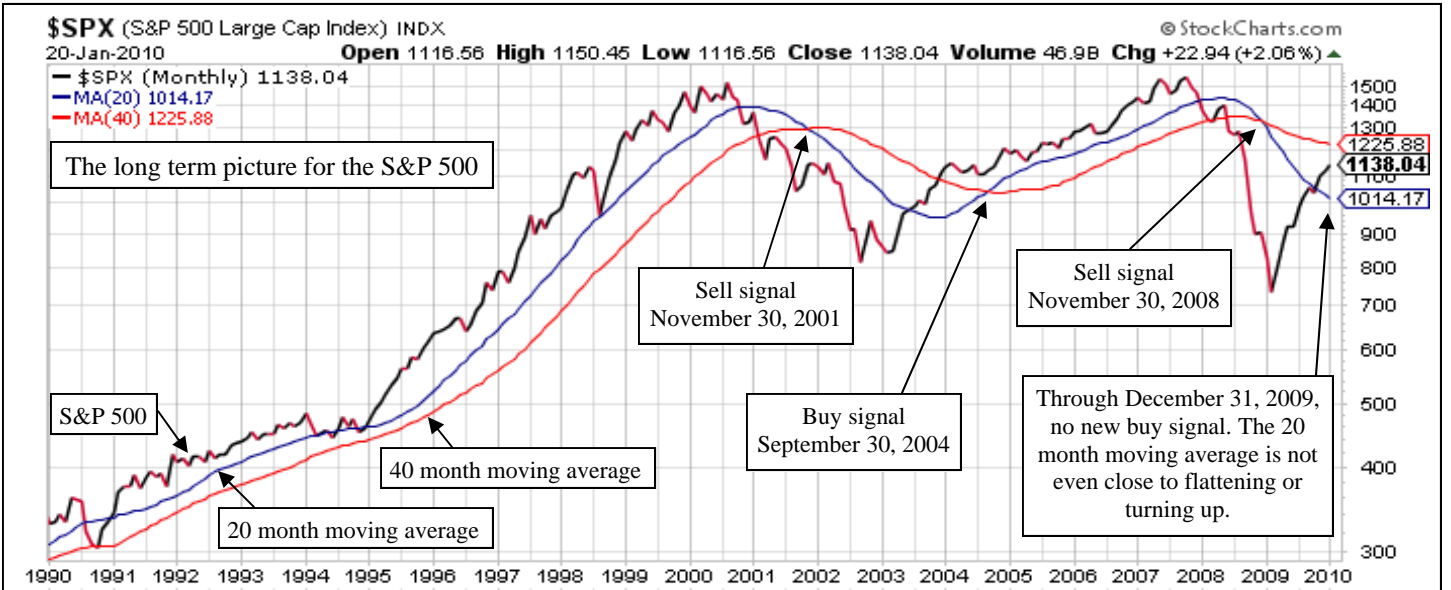


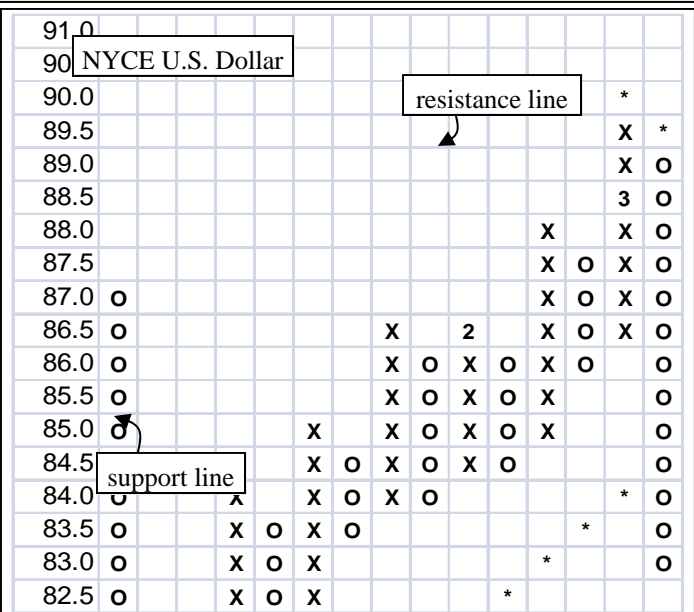
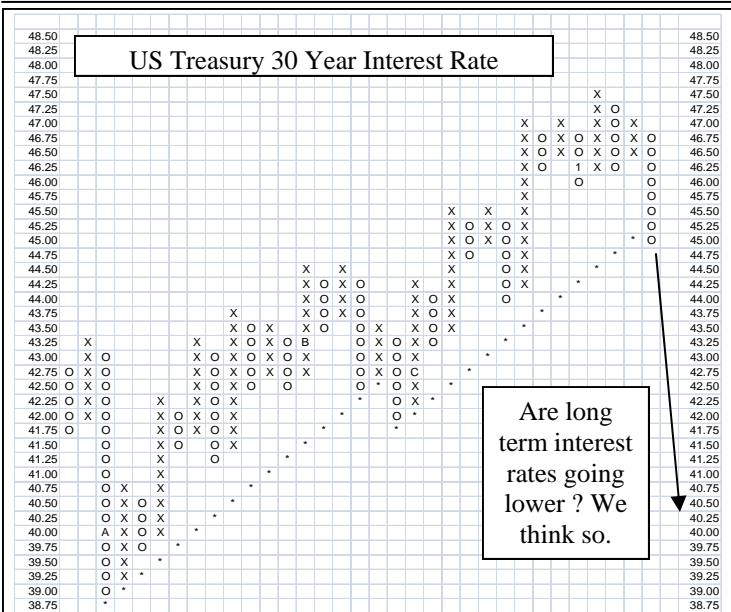


The technical condition of the stock market is deteriorating quickly. The Bullish Percent reading (left) for the S&P 500 is now more overbought than it was in 2007, before the sell-off that finished in March 2009. If we had the space to chart more history, you would see that it is also more overbought than it was in 2000! This is 'high risk' territory for this indicator! Take note of how oversold the stock market was in October of 2008 and March of 2009. Only 2% of all stock were on a buy signal at the time. This is a good 'coach' to have on your team!

The chart at the very bottom is a very long term perspective using a 20 versus 40 month moving average. Buy and sell signals occur when the lines cross, which is very infrequently. Notice that there were no sell signals throughout the '90's. Since the rally that started in March of 2009, the 20 week MA has not even begun to flatten, let alone turn up!

None of these pictures is good news for the stock market and probably for the economy either. If you need help navigating this challenging terrain, let us know. We're here to help.





Keeping tabs on the direction of interest rates can help us plan when and how to borrow money for things such as automobiles and mortgages. If you are in this camp there may be good news coming. For those interested in buying bonds for income, now might be a good time, because rates may be going down. If things are going to get worse for the stock market, that will mean things will likely get worse for the economy and interest rates will more likely stay low due to a lack of overall demand. Inflation concerns that might arise from Fed money printing activities will likely come later rather than sooner.

The current trend in the U.S Dollar is down. The recent rally that has occurred has no long term sustainability, at least for the moment. Should the Dollar break through the resistance line noted above, then the picture changes and we will re-evaluate. As long as the Dollar is weak, foreign investments should perform well, and gold should remain strong. The recent Dollar rally has had an inverse effect on gold short-term, providing a buying opportunity for the precious metal. We do expect gold to continue higher longer term.

Roth Conversion (continued from page 1)

Taxing Choices

When you convert tax-deferred assets from a traditional IRA and/or a former employer’s 401(k), 403(b), or 457 plan, the amount you convert in a given year needs to be declared as income on your tax return. If you are younger than age 59½ and pay the taxes on money that is not in the tax-deferred account (the recommended option), you can avoid a 10% federal income tax penalty.

Fortunately, you have options when it comes to paying the taxes on a Roth IRA conversion. In 2010 only, you can convert eligible retirement assets to a Roth IRA without having to claim the amount as income on your 2010 tax return. If you elect to do this, you must declare half of the converted amount as income in 2011 and the other half as income in 2012. In this way, you wouldn’t have to start paying taxes on a 2010 Roth IRA conversion until April 15, 2012.

However, by deferring the taxes on a 2010 conversion, the converted amount will be taxed at the income tax rates in effect in 2011 and 2012. As it stands, tax rates are scheduled to increase in 2011. Unless Congress acts to avert the tax rate increase, the taxes on Roth IRA conversions will be higher after 2010.

Also consider whether converting a sizable amount to a Roth IRA could move you into a higher tax bracket. If so, you may decide to convert smaller amounts over a period of several years.

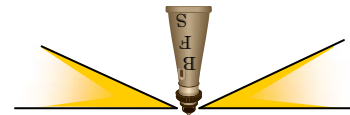
If you have IRAs into which you have made both deductible and nondeductible contributions, the tax implications of a Roth IRA conversion can become complicated. It may be prudent to consult a tax professional.

You Can Change Your Mind Later

If you change your mind after utilizing a Roth IRA conversion, you can elect a “do over,” called a recharacterization. The assets would be converted back to tax-deferred status and you can file an amended tax return seeking a refund of the income taxes you paid on the conversion. In order to qualify, you must recharacterize the funds before October 15

continued on page 4





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Roth Conversion (continued from page 3)

of the year following the year in which you converted.

Roth IRA conversions offer the potential for tax-free income in retirement for taxpayers at all income levels. If you want more information about converting to a Roth IRA, call today. It's critical to review your individual situation before making a decision about moving important assets.

- 1) *InvestmentNews*, November 16, 2009
- 2) Rasmussen Reports, September 3, 2009

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