

# Planning & Investment News

WILLIAM F. ROBERTSON & ASSOCIATES

Wm. F. Robertson & Assoc.  
G. Richard Truitt\*  
1200 Summit Ave., Suite 516  
Fort Worth TX 76102  
817.870-1242  
[richard@wfrplanning.com](mailto:richard@wfrplanning.com)

[www.wfrplanning.com](http://www.wfrplanning.com)

\*Securities offered through  
Gneos Wealth Management, Inc  
Member: FINRA & SIPC

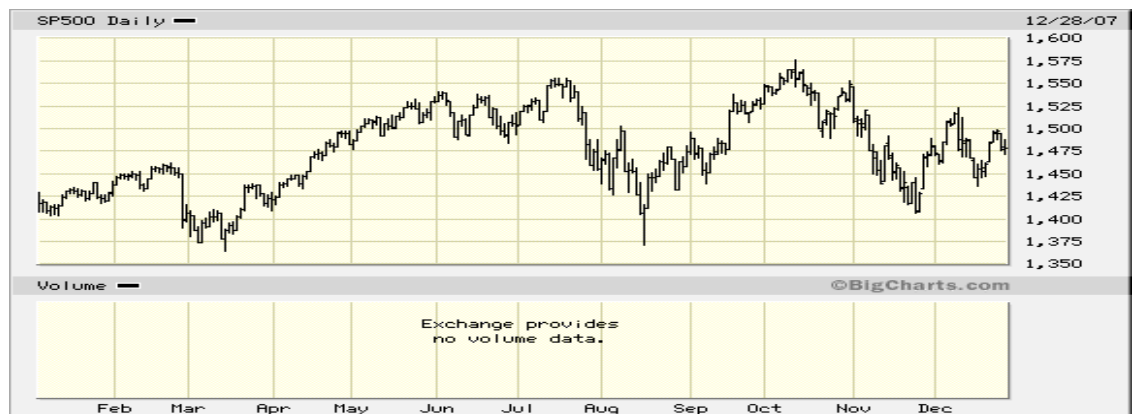
Advisory services offered through  
William F. Robertson & Associates  
and  
Gneos Wealth Management,  
Inc.

## WHAT HAPPENED? A SHORT REVIEW OF THE 2007 MARKETS

The financial markets in 2007 were, to say the least, unusual. But then again, is the stock market ever “usual”. If you were told at the beginning of the year that oil would hit \$100/barrel and that the sub-prime mortgage mess would knock the financial sector by approximately 21% (both Citicorp and Merrill Lynch’s stock fell by more than 40%), would you have invested at all?<sup>1</sup> But if you had stayed on the sidelines, you would have missed at least a modest increase in your accounts. Following are the indices returns for 2007:

Dow Jones Industrial Average +8.73%      Standard & Poor’s 500 Index +5.43%  
NASDAQ Composite +9.81%      MSCI EAFE International +9.94%<sup>2</sup>

But the year -end numbers only tell the outcome of 2007’s “story” as a lot happened during the year as shown on the following graph<sup>2</sup>:



The year was also unusual in the broad divergence of returns among the various market sectors. We like to look at the market in terms of asset classes (large vs. small companies, growth vs. value companies, and international). Following are the 2007 returns for these sectors:

S&P 500/Citigroup Growth Index +9.13%      S&P 500/Citigroup Value Index +1.99%  
S&P 1000/Citigroup Growth Index +10.89%      S&P 1000/Citigroup Value Index -0.19%<sup>3</sup>  
MSCI All Country World ex USA +17.11%      Lehman Brothers Universal Index +6.50%<sup>4</sup>

So the return of your portfolio depended to a large degree upon your allocation to each of these sectors. We feel it is practically impossible to know which sector will outperform. Contact our office for a copy of the “skittles” chart which illustrates this point. G.K. Chesterton, in a restatement of an Edgar Allan Poe axiom, proposed that “wisdom should reckon on the unforeseen.”<sup>5</sup> We by definition cannot see the “unforeseen”. We do attempt to anticipate future events (for instance we are more conservative than we were say in 2003), but we still maintain that a disciplined, well-allocated portfolio is still the best method for wealth creation.

<sup>1</sup> <http://online.barrons.com/article>

<sup>2</sup> Weekly Market Review”, CLS Investment Firm, LLC, January 2, 2008

<sup>3</sup> <http://bigcharts.com/quickchart/quickchart.aspx?symbol=sp500>

<sup>4</sup> [www.rochdale.com](http://www.rochdale.com), “Performance”, December 31, 2007

<sup>5</sup> ICON Funds Performance and vp, January 4, 2008

<sup>6</sup> “Your Money and Your Brain”, Jason Zweig, page 184



## Financial Resolutions for the New Year

New Year's resolutions don't all have to be about going to the gym, eating five fruits and vegetables a day, or spending more time with the kids. Here are some financial resolutions to consider.

### **Get organized**

Set up a records center, perhaps a fireproof file cabinet sectioned into financial categories. Determine how long you need to keep each type of document (it depends on what it is) and make up a master list detailing what's where. Then, make sure someone else you trust also knows where to find the list.

### **Maintain an emergency fund**

Aim to set aside an amount equal to 3 to 6 months of your living expenses in case you experience a sudden loss of income. You might accomplish this by increasing income with a second job and/or decreasing discretionary expenses.

### **Maximize your retirement savings**

If you participate in a retirement plan such as a 401(k) or a 403(b), contribute the maximum amount you possibly can--particularly if your employer matches some or all of your contribution. Salary deductions are made on a pretax basis, and any investment earnings grow tax deferred until they're withdrawn. And if your 401(k) or 403(b) plan allows after-tax Roth contributions, qualified distributions of your contributions and earnings will be completely tax free.

IRAs also feature tax-deferred growth of investment earnings. Traditional IRAs may help lower your present taxable income if you're eligible to make deductible contributions. Withdrawals (unless you're withdrawing nondeductible contributions) are taxed as ordinary income, however. Roth IRA contributions are not deductible but, like Roth 401(k)s, qualified distributions are entirely tax free.

### **Review your investment portfolio**

Is your asset allocation still in line with your investment goals, time horizon, and risk tolerance? Is it time to rebalance your allocation in light of changing market conditions and/or your changing needs? Are you taking appropriate advantage of new investment products? Reviewing your portfolio periodically can help you stay on track.

### **Check your insurance coverage**

You may want to review the terms of your insurance coverage--not just your life insurance, but also your auto, health, disability, and homeowners insurance. Are you adequately protected, given your circumstances? Is there coverage you really ought to have (such as personal umbrella liability or long-term care insurance), but don't?

### **Update your estate plan**

If you have a large estate (over the applicable exclusion amount of \$2 million for 2008), you should consider reviewing your estate plan. (If your estate is smaller, you should review your plan at least every five years.) Your estate plan should be reviewed in light of certain life events, such as changes in employment, changes in family circumstances (marriages, divorces, births, illness or incapacity, and deaths), or even significant changes (greater than 20%) in the valuation of the estate.

### **Seek assistance**

A financial professional can help you keep all these resolutions--giving you more time to focus on your health and being with your family.

## All about Net Unrealized Appreciation

A distribution from your employer's qualified retirement plan (for example, a 401(k), profit-sharing plan, or ESOP) is generally subject to ordinary income tax at the time you receive the distribution (special rules apply to Roth 401(k) plans and distributions of your own after-tax contributions). One way to defer paying taxes on your distribution is to make a tax-free rollover to an IRA or to another employer's plan.

But if your distribution includes employer stock (or other securities) you may have another option--you may be able to defer paying tax on the portion of your stock distribution that represents net unrealized appreciation (NUA) until you sell the stock. What's more, when you sell the stock, the NUA will be taxed at the long-term capital gains rate--typically much lower than the ordinary income tax rates. This strategy can, in some cases, result in significant tax savings.

### What is net unrealized appreciation?

A distribution of employer stock consists of two parts: (1) the cost basis (that is, the value of the stock when it was contributed to, or purchased by, your plan) and (2) any increase in value until the date the stock is distributed to you. That increase in value is referred to as the net unrealized appreciation.

For example, assume you retire and receive a distribution of employer stock worth \$500,000 from your 401(k) plan, and that the cost basis in the stock is \$50,000. The \$450,000 gain is NUA.

### How does the taxation of NUA work?

If your distribution qualifies as a lump-sum distribution, then you can choose to pay ordinary income tax at the time you receive your distribution only on the cost basis in the employer securities (\$50,000 in the above example). You won't pay tax on the NUA until you sell the securities at a later date, at which time the NUA is taxed as long-term capital gain, no matter how long you've held the securities outside of the plan (even if only for a single day). Any appreciation at the time of sale in excess of your NUA is taxed as either short-term or long-term capital gain, depending on how long you've held the stock outside the plan.

Using the example above, if you elect NUA tax treatment, you would pay ordinary income tax on \$50,000, the cost basis, when you receive your distribution. Let's say you sell the stock after five years, when it's worth \$750,000. At that time you would pay long-term capital gains tax on your NUA (\$450,000). You would also pay long-term capital gains tax on the additional appreciation (\$250,000), since you held the stock for more than one year. (Note that since you've already paid tax on the \$50,000 cost basis, you won't pay tax on that amount again when you sell the stock.)

If your distribution includes cash in addition to the stock, you can either roll the cash over to an IRA or take it as a taxable distribution.

### What is a lump-sum distribution?

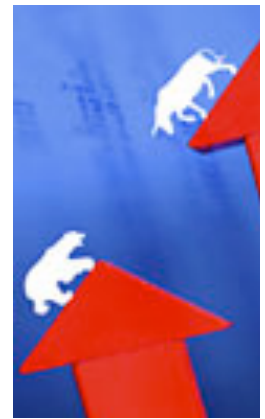
This special NUA tax treatment applies only if you receive the employer stock as part of a lump-sum distribution. To qualify as a lump-sum distribution, your distribution must satisfy both of the following requirements:

- You must receive a distribution of your entire balance, within a single tax year, from all of your employer's qualified plans of the same type (pension, profit-sharing, or stock bonus plans)
- Your distribution must be made after you reach age 59½, or it must be paid as a result of your separation from service (if you're an employee) or after you've become permanently and totally disabled (if you're self-employed)

### When is NUA treatment the best choice?

In general, this NUA strategy makes the most sense for individuals who have a large amount of NUA and a relatively small cost basis. However, whether it's right for you depends on many variables, including your age, estate planning goals, and anticipated tax rates. In some cases, rolling your distribution over to an IRA may be the better choice. And if you were born before 1936, other special tax rules might apply to your lump-sum distribution, making a taxable distribution your best option. Finally, keep in mind that if your beneficiary receives a lump-sum distribution after your death, that distribution may also be eligible for NUA tax treatment.

If you're expecting a distribution of employer securities from an employer plan, make sure you speak with a financial professional before you take any action. He or she can explore the different options with you to help ensure you make the most tax-effective decision.



*... if your distribution includes employer stock (or other securities) ... you may be able to defer paying tax on the portion of your stock distribution that represents net unrealized appreciation (NUA) until you sell the stock. What's more when you sell the stock, the NUA will be taxed at the long-term capital gains rate--typically much lower than the ordinary income tax rates.*

## Guaranteed Lifetime Withdrawal Benefit

Tax-deferred annuities can be a valuable tool, particularly for retirement savings. Fixed and variable annuities earn interest on premium(s) paid to the annuity issuer, and interest earnings accrue tax deferred prior to being withdrawn. Variable annuities offer purchasers a choice of investment sub accounts into which the premium may be allocated, whereas fixed annuities pay interest based on a fixed rate determined by the issuer. Both types of deferred annuities offer a minimum death benefit.

Deferred annuities also provide withdrawal options including payments that last for the life of the purchaser (annuitization). Due to growing demand for additional income options, some issuers are offering a rider, called a guaranteed lifetime withdrawal benefit (GLWB), which allows you to get lifetime income while continuing to have access to the annuity's remaining cash value.

### THE BASIC FEATURES

While its features may differ depending on the issuer offering it, the basic GLWB rider provides lifetime withdrawals without annuitization, which are subtracted from the annuity's cash value. These minimum guaranteed withdrawals are based on a percentage (the "withdrawal percentage") of the greater of your premiums paid or the accumulated cash value.

### SOME ADDED FEATURES

Some GLWB riders increase the withdrawal percentage based on the age at which you begin taking withdrawals. For example, the withdrawal percentage could be 5% at age 55, 7% at age 70, and 8% at age 80. Before you begin taking withdrawals, some issuers apply a minimum rate of interest to your premium(s), such as 5% per year (the minimum income value). Thereafter, the amount of each minimum guaranteed withdrawal is based on a percentage of the greater of the minimum income value or the annuity's cash value.

Your minimum guaranteed withdrawals may increase over time. The value used to determine the minimum guaranteed withdrawal is recalculated, such as every five years, allowing you to benefit if your account value goes up. Say you elect to receive minimum guaranteed withdrawals of \$7,500 per year, based on a withdrawal percentage of 5% applied to the annuity's cash value of \$150,000. Five years later, the annuity's cash value increases to \$160,000. The new minimum withdrawal is \$8,000 per year due to the increased cash value (\$160,000 x 5% per year). The new minimum guaranteed withdrawal will not decrease, even if the annuity's cash value later decreases or is exhausted. As a result, future unfavorable investment returns negatively affecting your cash value will not negatively affect your income (your withdrawals).

### ACCESS TO CASH VALUES

Most issuers allow you to take money from your cash value, even if you are receiving GLWB withdrawals. However, some issuers reduce future minimum guaranteed withdrawals in proportion to the amount you take from the cash value. For example, let's say you have a cash value of \$100,000 and your minimum guaranteed withdrawal is \$5,000 per year. You withdraw an additional 10% (\$10,000) from the cash value. Correspondingly, your subsequent GLWB withdrawals are reduced by 10% to \$4,500.

### A NOTE ABOUT VARIABLE ANNUITIES

Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk, including the possibility of loss of principal. Variable annuities are sold by prospectus, which contains information about the variable annuity, including a description of applicable fees and charges. These include, but are not limited to, mortality and expense risk charges, sales and surrender charges, administrative fees, and charges for optional benefits and riders. The prospectus can be obtained from the insurance company offering the variable annuity or from your financial professional. You should read the prospectus carefully before you invest.

## COSTS

Most issuers charge an annual fee for the GLWB rider, usually ranging from .1% to 1.0% or more of the annuity's cash value. Review the prospectus, sales materials, and the contract for information on charges and fees.

## DEATH BENEFIT OPTIONS

Unless altered by a death benefit provision or rider, annuities with the GLWB rider usually pay a death benefit equal to the greater of the remaining cash value or the remaining premium, if any, less withdrawals and applicable surrender charges. Generally, GLWB withdrawals are available only to the annuity owner and not his/her beneficiaries, unless the beneficiary is the owner's surviving spouse, in which case the withdrawals may be continued for the benefit of the spouse.

## IS IT RIGHT FOR YOU?

You may want to consider a deferred annuity if you have contributed the maximum amount to your other retirement plans and you'd like another long-term investment. A deferred annuity with the GLWB rider may be a good option if you want a guaranteed income but don't like the idea of giving up access to your money that annuitization requires. When considering any annuity, keep in mind that annuity guarantees, including those associated with benefit riders, are based on the claims-paying ability of the issuer. Additionally, annuity withdrawals made prior to age 59½ may be subject to a 10% federal tax penalty.



Take a look at our new website!

[www.wfrplanning.com](http://www.wfrplanning.com)

Not only do we hope this will be an informative site for prospective clients, but also a place where our clients can find the links to their accounts and other helpful information.

William F. Robertson & Associates  
G. Richard Truit, CFP™  
1200 Summit Avenue  
Suite 516  
Fort Worth, TX 76102  
817-870-1242  
[richard@wfrplanning.com](mailto:richard@wfrplanning.com)

\*Securities Offered Through  
Geos Wealth Management  
Member: FINRA & SIPC



## Ask the Experts: I'm planning a cruise to the Caribbean this winter. Do I need a passport?

Not yet. New passport rules requiring passports for all land and sea travel between the United States and Mexico, Canada, the Caribbean, and Bermuda were originally scheduled to take effect in January of 2008. But a massive backlog of passport applications (caused by another requirement that all travelers flying to these destinations have a passport by the fall of 2007) prompted the federal government to delay implementation of the new rules until sometime between the summer of 2008 and June of 2009. The precise implementation date will be announced later, with at least 60 days notice given.

In the meantime, beginning January 31, 2008, Americans traveling by land or sea to Mexico, Canada, the Caribbean, or Bermuda will need to show a government-issued photo ID, such as a license, and a birth certificate or other proof of citizenship.

And if you're planning to travel by land or sea to any of these destinations later this year or in 2009, consider applying for a passport as soon as possible. The State Department reports that the current wait time is 4 to 6 weeks, but recommends allowing 10 weeks during busier times like the summer travel season (during peak application periods in 2007, waiting times reached 16 weeks). The State Department estimates that 23 million passport applications will be filed in 2008, and 30 million in 2009. So don't delay.



For more details, visit the State Department's website at <http://travel.state.gov> and click on the link "Passports for U.S. Citizens," or call the National Passport Information Center toll free at 1-877-487-2778.

Advisory services offered through William F. Robertson & Associates and Geos Wealth Management, Inc. a registered investment advisor. This information is provided as an informal report; no warranties as to the accuracy or content are implied or expressed. No representations or warranties are being made as to the ramifications of effecting any of the above alternatives, or the legal or income tax effect of the enclosed information. The information must be interpreted in the context of, and is qualified by, all the information contained in the prospectuses, and/or Forms ADV 2, where applicable, which have been or will be delivered to the appropriate investing parties prior to any offering being made. All information contained herein must be qualified by your professional legal and accounting advisors.

Copyright 2007 Forefield Inc.  
All Rights Reserved.