

Wealth Builder

Roback, Kumlander
& Pehl, CPAs, LLP



Luther Forest
Wealth Advisors, LLC

Objective Advice On The Road Of Life

January 2009

*Happiness is seeing 2008
in the rear view mirror.*



2008 will go down in history as one of the worst years ever for investors, and just about everyone else!

The Dow Jones Industrial Average, the most widely quoted stock market barometer (which tracks only 30 stocks), began the year at 13,424 and ended the year at 8,776; ending the year down 34%. The S&P 500, which tracks 500 of the largest companies in the U.S., began the year at 1,476 and ended the year at 903; ending down nearly 40%.

You have to go back to 1937 to find a comparably bad year in the markets – the S&P was down 35% that year. You have to go back even further, to 1931, to find a worse year, in fact THE WORST YEAR – the S&P was down 43% that year – in the midst of the Great Depression

What does looking back at history reveal?

Two years after the worst year in stock market history (since 1926) – 1933 – the S&P experienced its greatest single year performance – up a whopping 54%! After the Great Depression ended in 1932, the market experienced very solid gains in three of the next four years.

The following chart shows the year-by-year performance of the S&P 500 from the end of the Roaring '20s through the end of WWII:

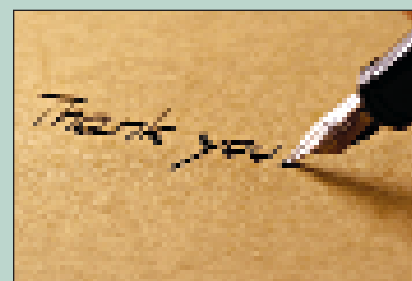
S&P 500 gain/(loss)

1927	37.5%
1928	43.6%
1929	(8.4%)
1930	(24.9%)
1931	(43.3%)
1932	(8.2%)
1933	54.0%
1934	(1.4%)
1935	47.7%
1936	33.9%
1937	(35.0%)
1938	31.1%
1939	(0.4%)
1940	(9.8%)
1941	(11.6%)
1942	20.3%
1943	25.9%
1944	19.8%
1945	36.4%
1946	(8.1%)

(Continued on page 2)

A word of thanks...

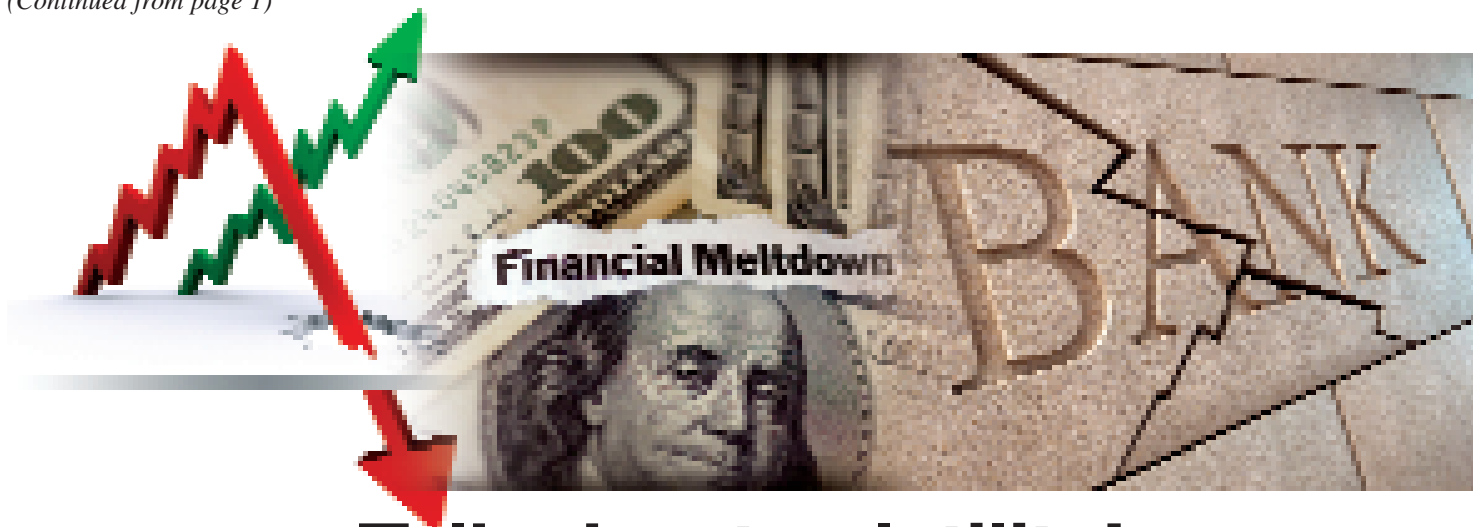
We would like to thank you for the trust and confidence you have placed in us. We appreciate your business, but more importantly, we appreciate the relationships we have with you.



From all of us at Luther Forest Wealth Advisors and Roback, Kumlander & Pehl, we wish you a Happy, Health and Prosperous 2009.

Happiness is seeing 2008...

(Continued from page 1)



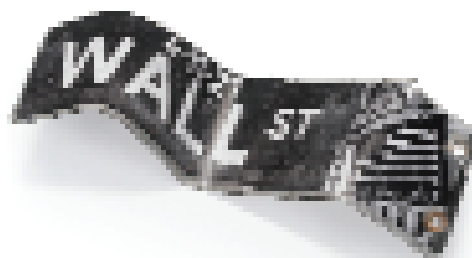
Talk about volatility!

After the worst year ever – 1931 – we see that 1933, 1935 and 1936 were exceptionally good years. The loss of 1937 was followed by an impressive gain in 1938. Then we hit another rough patch from 1939-1941. The advent of WWII, while a horrible tragedy for the world to experience, ushered in some prosperous times in the stock market. So what is all this telling us? First and foremost, it tells us that we have experienced some very bad times before in the markets, and therefore, in our economy. Yet, given time, both the stock market and the economy recover. And yes, things are different this time. No crisis is ever like the one before. But we have endured various crises in the past and we weathered every one. We will weather this one too. Secondly, it tells us we need to be patient long-term investors. But that doesn't mean you just sit through this with 100% of your money invested in the stock market.

For virtually all of 2008, we have allowed cash to accumulate in money markets of all of our client portfolios and diverted money from some real estate and stock holdings into non-stock positions (e.g., money market accounts, Certificates of Deposit and

short- and intermediate-term bond funds). This was all done in an attempt to minimize the downside impact on your portfolios. As we see signs of recovery, these non-stock assets will be redirected accordingly. In the event the economy deteriorates even further, we may increase these non-stock holdings. While this represents a form of market-timing, we believe it has been prudent in hindsight. We would rather err on the side of caution than not.

Can this historical data reveal anything about what will happen in 2009? Well, first of all, it shows us that periods of under-performance are often followed by periods of over-performance and vice versa. This is the Law of Averages at work. The Roaring 20s were followed by the Great Depression. The Great Depression was followed by some banner years in



S&P 500 gain/(loss)

1995	37.4%
1996	23.1%
1997	33.4%
1998	28.6%
1999	21.0%
2000	(9.1%)
2001	(11.9%)
2002	(22.1%)
2003	28.7%
2004	10.9%
2005	4.9%
2006	15.8%
2007	5.5%
2008	(33.8%)

the mid 1930s; only to be followed by another downturn in the late '30s. That downturn was followed by a period of extraordinary growth in the '40s. Fast forward to more recent times and we see the 1990's were very similar to the Roaring '20s.

Technology was leading the way in the '20s as it did in the '90s. Albeit very different forms of technology! Then the bubble burst in the early 2000s, much like the downturn of the early 1930s. We were beginning to recover from that downturn only to be hit with the recent financial mess. As the above table reveals, with this recent downturn, combined with the sluggish period we have experienced throughout this current decade, we could see this recent period of under-performance be followed by a period of exceptional growth once we clear this current hurdle. While no one can say

for sure if this historical pattern will be repeated, we will continue to monitor the current economic climate and use our best professional judgment to take advantage of any possible rebound that may occur. The big question is...when the recovery takes place, regardless of its magnitude, when will it begin?

As you will note in both tables, sometimes these cyclical downturns span three or even four years; sometimes just a single year. No one knows how long this current situation will take to get resolved. If we had to guess, we think it may be late 2009 at the earliest before we begin to see any real improvement. That is not to say that we think things will get a lot worse; just not a lot better. We could see the markets bounce around in a narrow range between 7,500 and 9,500 on the Dow Jones Industrial Average. Obviously this is just an educated guess on our part. We will continue to monitor the economy, the markets, and changes in policies and laws coming out of Washington. We will keep you updated on our thoughts in future newsletters; and as always, feel free to call us any time you have questions.

In the meantime, any cash needs that you anticipate from your portfolio over the next 18 – 24 months should be maintained in non-stock investments such as money market accounts, certificates of deposit (CDs), or short-term bonds. This will provide the liquidity you need without putting you in a position of having to sell at what may be a low point in this cycle. Please advise us of any cash needs that you may have over the next 18 – 24 months so that we can be sure that your portfolio is positioned appropriately. ●

Tax update



There has been much speculation about what tax law changes may be proposed under a new administration. We participated in a bit of speculation ourselves in our last newsletter, so we won't repeat ourselves here. Instead, we'll focus on tax law changes that are already on the books that took effect on January 1, 2009.

For 2009, **if you are 70½ years of age, or older**, you can skip taking your Required Minimum Distribution (RMD) from your IRA or other retirement plans without any penalty. This was going to be enacted for 2008, but the Treasury opted not to permit this until 2009.

The same is true for beneficiaries of inherited IRAs or other retirement plans – no withdrawal requirement for 2009.

The new maximum contribution to 401(k) plans increases from \$15,500 in 2008, to \$16,500 in 2009. Individuals born before 1960 can put in an extra \$5,500, for a total of \$22,000. These limits apply to 403(b) and 457 plans as well.

The ceiling for SIMPLE IRA plan contributions is increased from \$10,500 in 2008 to \$11,500 in 2009. People age 50 and older can contribute an additional \$2,500.

A tax credit is available to provide an incentive to fund retirement plans. This credit is available for

married filers with Adjusted Gross Incomes (AGI) of up to \$55,000; and for singles with AGI up to \$27,750. The maximum Retirement Saver's Credit is \$1,000 but may be less depending on your specific income and the amount of your contribution.

The maximum contribution to traditional and Roth IRAs remain unchanged at \$5,000; \$6,000 for those age 50 or older.

A nice tax planning strategy has been curtailed under a new law taking effect January 1, 2009. Under the old law, a "non-principal" residence, such as a vacation home or a rental property, could be converted to a personal, principal residence. If used as such for two years then sold, the gain was eligible to be fully excluded – up to \$250,000 for single filers; \$500,000 for married filers. Under the new law, only a portion of any such future gain will be excluded. The portion of time after 2008 in which the home was not used as a principal residence will be compared to the portion of time after 2008 the home was used as principal residence. The percentage of time used as a principal residence will be applied to these exclusion amounts to determine the tax-exempt gain. We can't make this stuff up!

This one is just funny – several years ago the IRS began limiting the benefit people receive from their

Tax update

(Continued from page 3)

itemized deductions – such things as charitable contributions, home mortgage interest, real estate taxes and the like. They, in essence, required a computation to reduce the total amount of itemized deductions claimed by 3% of income in excess of certain thresholds. Are you still with me? Over the past couple of years, they have begun to phase-out this phase-out; reducing the amount of the reduction, if you will. Again, we can't make this stuff up. We just wanted to share this one with you to illustrate some of the craziness that goes into tax return preparation and planning. Suffice it to say, you don't need to worry about this provision; just beware that it actually does work in your favor.

The Federal estate tax in 2009 will only apply to estates in excess of \$3.5 million; up from \$2 million in 2008. Estates in excess of this amount will be taxed at a flat rate of 45%! How's that for a disincentive?

The amount of annual gifting that can be done with no reporting requirements is increasing from \$12,000 in 2008 to \$13,000 per donee in 2009. Married couples may elect to share gifts jointly thereby doubling this amount before any informational gift tax returns would have to be filed.

The Social Security wage base will rise from \$102,000 in 2008 to \$106,800 in 2009 - meaning that the first \$106,800 of everyone's earnings will be subject to Social Security and Medicare withholdings. Earnings in excess of that will still be subject to Medicare withholdings.

For people who claim Social Security benefits prior to reaching their full retirement age, the earnings ceiling is increasing to \$14,160 before your benefits will be confiscated by Social Security. So if you plan to work part-time and earn less than this amount, it may make sense to take your Social Security benefits early. If you plan to earn more than this amount and you have not yet reached your full retirement age, you would likely be better off delaying receipt of your Social Security benefits. Full retirement age is the age at which you could claim 100% of your Social Security benefits. It depends on your year of birth, and ranges from age 65 to age 67. Check your most recent Social Security statement for your specific "full retirement" age.

The standard business mileage rate for 2009 is \$0.55 per mile. For medical-related travel and moving the rate is \$0.24 per mile. When

driving for charity, you're entitled to \$0.14 per mile.

A 10% tax credit for energy efficiency home improvements returns in 2009. It was discontinued for 2008. A credit of up to \$150 can be claimed for energy efficient furnaces and water heaters; up to \$200 for windows; and up to \$300 for biomass stoves – whatever they are!

There is also a 30% credit for solar water heating equipment. In the past, this credit was limited to \$2,000 but will no longer have such a limit applied. The credit is 30% of the total cost of the system.

Last, but certainly not least, for 2008 **NYS now imposes a higher annual tax on ALL LLCs and LLPs, including single member entities** which had previously been exempt. This annual fee will be based on gross receipts of the business and will increase with higher sales volume. ●

Feel free to contact us with any questions about these or any other tax issues you may have.