



Purcell Investor Report

Fourth Quarter 2009

Focus on Retirement Planning

This quarter we are focusing on issues and information related to planning for a stage of life we all look forward to – retirement. Key to enjoying these years, which for many of us may be equal to our years spent in the work force, is a well thought out financial plan. Decisions such as when to start saving and how much are critical to your long-term financial well being. Even though you may already be retired, there are still important decisions to make, such as when to begin taking income from your investments and at what rate.

Part of comprehensive retirement planning is deciding when to pay taxes on your savings. In the case of IRAs, recent changes in IRS code should lead all investors to consider in 2010 whether to convert traditional IRAs to Roth IRAs. These changes may mean opportunity for some investors to enjoy greater tax savings on their retirement income over the long run.

2010 Window Opens for Roth IRA Conversions

In 2010 anyone regardless of income level, may open or transfer funds from an IRA account to a Roth IRA, thanks to the Pension Protection Act of 2006. Prior to this year, only taxpayers with an Adjusted Gross Income of \$100,000 or less have been allowed to convert funds from their IRA into a Roth IRA.

With a Roth IRA, all contributions are after-tax (i.e. non-deductible), however, earnings from the account can be withdrawn free of federal income taxes once the individual reaches retirement. Earnings from assets transferred from a IRA account, are not available for tax free withdrawal until five years have passed since conversion and the account holder is at least 59½ years old. There are no minimum distribution requirements for a Roth IRA.

To convert existing IRA funds to a Roth IRA, taxes must be paid on any pre-tax IRA contributions, but there's another benefit to converting in 2010. For funds converted in 2010, the tax liability can be paid one half in tax year 2011 and half in tax year 2012. Convert in 2011, and taxes will be due on the full conversion amount for tax year 2011.

Before you opt to convert to a Roth, however, you need to run the numbers. Although all earnings from a Roth IRA are exempt from federal income taxes, by paying taxes on all contributions in advance you lose the earning power of those funds. You may also be paying taxes at a higher rate than you might if you held your IRA into retirement when your tax rate might be less.

Typically, a Roth conversion will make the most sense for individuals with years to go before they retire. The closer you are to retirement, the less value a Roth might have unless your goal is to pass on the IRA to your heirs. There are no distributions required from a Roth IRA during your lifetime and by converting to a Roth and paying the necessary taxes, you will shrink your taxable estate.

That could mean bequeathing a pool of income-tax-free money to your heirs.

Steps to take if you wish to consider a Roth Conversion are:

1. Evaluate your IRA.
2. Seek advice from your financial advisor.
3. Weigh financial and tax factors.
4. Calculate the potential tax due.
5. Decide when to pay the tax bill.
6. Consider when to convert.
7. Fill out conversion paperwork

If you have an IRA in which after-tax contributions have been made, you only need to pay taxes on accumulated earnings to convert to a Roth IRA. Keep in mind as well that partial conversion of your IRA to a Roth is an option as well.

Weigh Your Retirement Options and Plan

In light of the recent economic downturn, many investors are concerned about their ability to retire in the time frame of their choosing. Retirement plans based on what once seemed a reasonable 10% annual rate of appreciation have instead seen 10 years of minimal, if any, real appreciation in their equity investments. The question now is what should you do with respect to planning for retirement?

Remember that risk is very real when you invest your savings.

Before working with a financial adviser or money manager, ask what they will do to protect your savings in the event of another market downturn, because there will be one. If they don't have a plan that you can buy into, don't invest.

Purcell offers absolute return objective programs that are designed to perform regardless of market direction. This is much different than investing, for example, in index funds that will move in tandem with their respective market index with no consideration of downside risk. Our programs seek to preserve capital by moving to either cash or inverse mutual funds that increase in value when the market goes down. Keep in mind that our programs can best meet your goals when held over a minimum of 3-5 years or over a full cycle in the investment markets.

Please contact us to request our latest ADV disclosure form.

If your objectives or financial goals have changed,

Please contact your financial advisor or

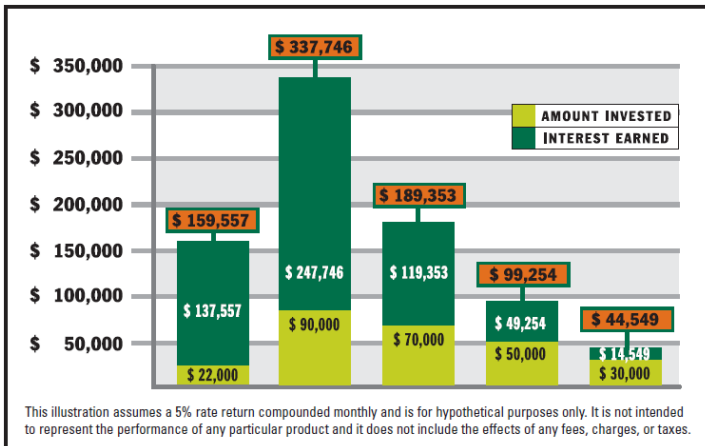
PURCELL ADVISORY SERVICES, LLC

www.purcelladvisory.com

Phone (253) 627-8101 Toll-free (800) 730-6867 Fax (253) 627-8102

The next step is simply to spend less and save as much as you can.

If the market experiences an average return of 5% (which looks quite rosy at this point), building a nest egg will take either hefty investments now, or a longer period until retirement. Each year you delay saving, the more you will need to set aside.



\$ 159,557	Saved \$2,000 per year from age 20 to 30. Kept money in account until age 65.
\$ 337,746	Saved \$2,000 per year from age 20 to 65.
\$ 189,353	Saved \$2,000 per year from age 30 to 65.
\$ 99,254	Saved \$2,000 per year from age 40 to 65.
\$ 44,549	Saved \$2,000 per year from age 50 to 65.

Source: www.choosetosave.org

Keep in mind that the IRS allows greater contributions to retirement savings for individuals over age 50. For example, the catch-up amount for an IRA is \$1000 in addition to the usual \$5000. For 401(k) participants, it's an extra \$5,500, and you benefit from lowering your taxable income as well as a possible employer match.

Consider alternative retirement goals.

- Work longer, which will increase your Social Security payments and give your retirement investments more time to grow. IRS regulations allow participants in a 401(k) and other workplace retirement plans to delay their minimum distributions well beyond 70.5 as long as they continue to work.

- Phase in your retirement. Gradually reduce your work hours until you can afford to fully retire.
- Plan to work part-time in retirement. But be careful because this will impact the amount you receive from Social Security if you opt for early retirement.

Hit reset on your lifestyle.

As investors approach retirement, it may be wise to look for ways to lower expenses and increase or extend savings. A smaller house, renting a vacation home instead of owning, cutting back on club memberships... these are all ways to free up funds that you can use for retirement. Look for ways to minimize monthly expenses such as property maintenance, loan payments etc. Even when expenses seem small individually, added together they become real money. If you are assisting younger members of your family with their expenses, this may be the time to cut the strings.

Retirement is not beyond your reach. In fact, it may be much more feasible than you think. The important thing is to not wait until the last minute to start planning. The earlier you put a plan in place the greater your chances of succeeding. For help with achieving your retirement goals, make it your new year's resolution to take time to meet with your financial advisor to create or refine your plan.

Happy New Year from all of us at Purcell!



PURCELL BOOK OF THE QUARTER

Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System—and Themselves

Andrew Ross Sorkin has written a real-life thriller in *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System—and Themselves*. As The New York Times chief merger and acquisitions reporter he has had extensive experience dealing with Wall Street since 1999 when he first joined The Times. He had unprecedented access to players involved and recreated all the drama and turmoil of the greatest financial crisis since the Great Depression.

Purcell Advisory Services is pleased to offer *Too Big to Fail* as our Book of the Quarter in an effort to help shed some light on what went wrong and what went right (not much) during 2008 and we believe Sorkin has written the definitive book on the crisis.

This is really a play-by-play history and covers a lot of ground, especially when giving insight into the days when the world's financial system was on the brink of collapse.

If you'd like to receive a complimentary copy of this "rearview of a meltdown", please call our office at 800-730-6867 or send an email to PA1@purcellas.com.

Tom Wolfe is quoted as saying: "...a fascinating, scene-by-scene saga of the eyeless trying to march the clueless through Great Depression II." (How could you resist this call to read about it?)