

Investor Insights & Outlook

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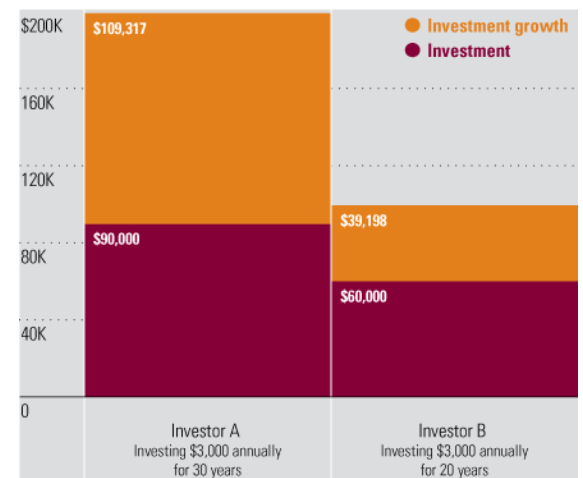
Investment Updates

The Costs of Financial Procrastination

Retirement usually doesn't start until you're in your 60s but there is a good reason to start saving much sooner. The earlier you contribute to your nest egg, the more time your portfolio will have to grow in value.

The image illustrates the ending wealth values and effects of compounding of two investment portfolios. Consider two hypothetical investors who begin investing \$3,000 at an average annual rate of return of 5%. Investor A invests \$3,000 for a 30-year period, which results in an ending wealth value of \$199,317. On the other hand, investor B invests \$3,000 for a 20-year period, which results in an ending wealth value of \$99,198. Investor A invested an additional \$30,000 compared to Investor B. However, a large difference in the ending wealth value can be attributed to the compounding effect of the \$30,000 for the additional 10 years. In other words, your dollars saved now will be worth a lot more than your dollars saved in retirement.

The Effect of Compounding



Source: This is for illustrative purposes only and not indicative of any investment. The image represents a hypothetical rate of return of 5%. The values represented do not account for inflation or taxes. Past performance is not a guarantee of future results. The opinions herein are those of Morningstar, Inc. and should not be viewed as providing investment advice. Please consult with your financial professional regarding such services.



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Important Message Regarding Charles Schwab Trading Fees

Standard pricing for electronic trades including automated phone is 2-tiered pricing (\$19.95/\$8.95) determined by the client's household assets and other eligibility requirements.

- For account holders with \$1MM + in household assets, electronic equity pricing is \$8.95 per trade.
- For account holders with \$1MM in household assets whose accounts

are enrolled in eDelivery (eConfirms and eStatements), electronic equity pricing is \$8.95 per trade.

- For account holders with \$1mm in household assets whose accounts are not enrolled in eDelivery (eConfirm and eStatement), electronic equity pricing is \$19.95 for the first 1,000 shares, plus 1.5¢ per share thereafter.
- Schwab ETFs: trades are

commission-free for account holders if placed online or through Blossom Wealth Management.

Please call Schwab Alliance at (800) 515-2157 for instructions on how to enroll your accounts today.

Questions to Ask Your Retirement Plan Sponsor

Many employers provide a 401(k) retirement plan to their employees; however, not all plans are alike. Retirement plans usually differ in the number and type of investment choices available to plan participants. Contributing to a 401(k) retirement plan can increase your savings through both a matched contribution and a reduction in your current tax liability. If you're wondering where to start, here are a few questions you should ask your retirement plan sponsor that will help you with your contribution and investment selection decision.

Q. What is my company match? Several employers match employee contributions toward a 401(k) retirement plan. Matched contributions typically range from 25 cents (25% match) to one dollar (100% match) per dollar contributed by the employee, up to a predetermined limit (6% of pay). For example, if your annual salary is \$100,000 and your employer provides a 50% match on a maximum contribution of 6%, then you receive an additional \$3,000 in matched employer contributions for your \$6,000 contribution.

Q. What are my investment options? A good plan should offer a variety of investment options that allow plan participants to build a diversified portfolio and select investments that best fit their risk profile. Options may include investments across different stock market capitalizations, market sectors, domestic and international investments, bonds, and cash. Be sure to read the investment prospectus and ask questions about items that you are unsure about before investing.

Q. What fees are associated with investments available to me? Funds within a 401(k) retirement plan vary not only by investment objective but also by fees. The expense ratio (annual fee) shows the actual amount that a fund takes out of its assets each year to cover its expenses. Investors should note not only the current expense-ratio figure, but also the trend in these expenses; it could prove useful to know whether a fund is becoming

cheaper or more costly over time. When considering high expenses versus low expenses, investors must also consider the fund's objective and its size. Certain objectives, such as foreign-equity funds, have higher costs and therefore, higher expense ratios. As for size, smaller funds are normally costlier than larger funds, as they do not have the benefits of economies of scale. Pay attention to expense ratios that are greater than 1%. Expense ratios for many funds exceed 1.5%. The average fund investing in large-cap stocks carries an expense ratio of 1.26% of the investor's holdings as of December 2009. In addition to expense ratios, some funds may also charge sales loads i.e. initial (front-end) and deferred (back-end) sales charges imposed by a fund. Some charges are triggered when an investor transfers assets out of a fund within a specified time frame.

If your plan provides a number of investment options, make sure to evaluate all your choices. Be careful not to only select funds that have the best return in the past year or past few years. Take into account your investment goals, risk profile, asset allocation needs and expenses before you invest. There is no limit to the number of 401(k) plans you can have at any given time, however, you can only contribute new money to the plan at your current employer. Make sure you check your account statements regularly. Employers are required to provide participants with annual statements, but a vast majority of plans provide statements quarterly as well. If you have questions, be sure to consult with human resources at your company. By asking the right questions about your retirement plan, you can make an informed decision based on the options that are available to you.

Source: Expense ratio data is from Morningstar's open-end database. This is for illustrative purposes only and not indicative of any investment. The opinions herein are those of Morningstar, Inc. and should not be viewed as providing investment advice. Please consult with your financial professional regarding such services.

The Future of Taxes

Now that our 2009 taxes have been filed and the lucky ones have received their refunds, nobody even wants to think about next year's returns. The Obama administration is pushing for major tax increases in 2011, which is causing many unhappy Americans to take to the streets in so-called tea-party rallies. It is important that you, as a taxpayer, be informed about these changes and consider which ones will affect you most.

Income Tax: The current tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) are set to expire at the end of 2010. The proposed change for next year will eliminate the bottom bracket of 10% and change the remaining five to 15%, 28%, 31%, 36%, and 39.6%. The income thresholds that define these tax brackets will also change. It is highly likely that we will all pay more taxes next year.

Capital Gains Tax: Currently, long-term capital gains on investments are taxed at 0% for taxpayers in the two lowest brackets, and at 15% for everyone else. When these rates expire at the end of 2010, capital gains tax is projected to become 10% for taxpayers in the lowest tax bracket, and 20% for everyone else.

Dividend Tax: Whenever you receive dividends from your investments, you're supposed to pay tax on those dividends. In 2003, President George W. Bush signed a law under which qualified dividends were taxed at the same rate as long-term capital gains: 15%. This tax law is also set to expire in 2011; the current plan is to bring dividend taxes in line with ordinary income tax rates. So, if you're in the top tax bracket, you will pay 39.6% dividend tax, as opposed to only 15% last year.

Estate Tax: In 2001, President Bush signed the Economic Growth and Tax Relief Reconciliation Act of 2001, a 10-year tax act that would expire in 2011. This act eliminated the federal estate tax for people dying in 2010. However, there is talk of maintaining the 2010 estate tax at its 2009 parameters. What will happen in 2011 is also uncertain. Unless changed beforehand, 2011

estate taxes will revert to pre-2001 rates, which could mean a marginal rate of up to 55%.

Other Taxes: For families with children, it may be good to know that the \$1,000 child tax credit will revert to \$500 after 2010.

After reading and understanding in detail which changes will apply to your situation, the next step is to decide how you want to reorganize your investments in order to minimize the impact of these tax increases. One option you might want to consider is municipal bonds, which are generally exempt from federal income taxes. These bonds can also be exempt from state and local taxes, but different states have different rules, so be sure to check before investing.

Another option would be relocating your investments, for example putting high-tax investments in your 401k (tax-deferred) account and low-tax investments in your taxable one. Since you will probably fall under a lower tax bracket in retirement, tax-deferred retirement plans can be a valuable investing tool.

Proposed Changes to Tax Rates

	2010	2011
Personal income tax	10% to 35%	15% to 39.6%
Long-term capital gains tax	Maximum of 15%	Maximum of 20%
Qualified dividends tax	15%	Ordinary income tax rate
Estate tax	Maximum of 45%	Maximum of 55%

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Dangers of Market Timing

Two of the most dangerous words in the investing world are “market timing.” Market timing occurs when investors try to predict which direction the stock market will head. While some investors have been known to make money timing the market, it is highly inadvisable for long-term investors to try this extremely risky strategy. Opponents of Market Timing: Most investors and academics believe it is impossible to forecast market movements. Such a technique amounts to gambling when compared to a sound investment approach. It fails far more than it works, and market timers often end up buying high and selling low. Furthermore, you run the risk of missing periods of exceptional returns. For example, over the past 20 years, a \$1 investment in stocks, as represented by the Standard & Poor’s 500®, would have grown to \$4.84. If that same \$1 investment happened to miss the best 10 months of stock returns over the past 20 years, the ending value would have equaled only \$2.04. This would have been less than the value for an investor in a 30-day Treasury bill, a.k.a. cash, \$2.12. Only those who remained invested in stocks through the entire

period were sure to get market exposure during the crucial hot months.

Advocates of Market Timing: On the contrary, a number of websites, newsletters, and other trading services boast they can time the market. While their returns may have in fact beaten the market by a considerable margin, it’s safe to assume that these systems can’t consistently hold up over the long term. On some occasions and during some stretches of time, market timing can help generate impressive profits. However, you must be familiar with the dangers behind such an approach.

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