StoneRidge Wealth Management

April 2011

The Quarterly Profit

The Crystal Ball

Towards the end of last summer, several highly esteemed pundits were touting the Hindenburg Omen, and how the markets might soon crash because of certain trailing indicators. Others were warning investors that the month of September is usually a bad market month, and to stay away. And, the Double Dippers were not to be denied, shrieking that the gains of the previous year would soon be lost. Since I'll never have the necessary credentials to be a wiz-bang pundit, (which amongst other advanced degrees, probably requires one in negativity) I wrote an article in September's Quarterly Profit titled "A Little Optimism, Please." I preferred to view the market from a global perspective, and how billions of people continue to ascend their respective financial ladders, forcing very positive economic changes all over the world. Well, so much for the Hindenburg Omen and the Dips. The Dow Jones Industrial 30 was a little over 10,000 on August 1. On December 31 it hit 11,577, for an increase of about 16% in four months. Arguably, this was one of the strongest autumns on record. (Compliance requires me to state that the Dow Jones Industrial 30 is not a security, and of course, past performance is not a guarantee of future returns).

This positive trending continued through January and well into February, until the political events in Egypt and Libya created a new round of market volatility. Then Mother Nature visited Japan. The shocking loss of human life, coupled with the unparalleled devastation to Japan's economy, has caused another worldwide market decline. None of us can fathom the suffering and anguish, and our hearts go out to the Japanese people. As monumental as this catastrophe is, though, I have no doubt that Japan will show its strength, resolve and resiliency. Cataclysmic events usually create a sudden drop in market value, followed by a relatively rapid recovery. I recommend that we take a deep breath and ride this one out.

So here is my Crystal Ball for 2011, with all of the usual disclaimers about talk being cheap. I believe that 2011 is going to be a very solid year for the US and global markets, quite possibly surpassing the returns of 2010. I'd like to suggest some parallel between market conditions for the next several years, and the market conditions from 2003 through 2007. While 2000-2002 were the first three years of consecutive market loss since the Great Depression, the following five years were positive, with the Dow and S&P returns ranging from a low of about 5% to a high of about 28%. When the 2008 financial debacle hit, the US indices dropped farther in five months than their cumulative drops from 2000-2002. The emerging markets plummeted faster and deeper than the US indices, and The Oregonian headlines of October 7, 2008 said it all: **"Fear grips world's markets"** But the emerging markets rebounded more dramatically than the US markets and will probably continue to show greater growth. Most leading economists believe that the US and global markets are gaining traction, and that sometime in 2012 the world's population will break the **7 Billion** mark. I cannot comprehend the sheer magnitude of 7 billion people, and the fundamental economic growth that is probably just beginning.

Let's continue to review and discuss these trends as we progress into 2011, and how they affect your own financial goals. As optimistic as I am about the next few years, let's not forget our StoneRidge investment motto, "Protection first, growth second!" The political unrest in the Middle East and the tragedy in Japan are prime examples of why we must always look over our investment shoulder.

Van Mason, CFP™, CLU, MBA

Strategic Corner

The Tax Compromise

Income Tax is one of those topics that often elicits surprisingly strong opinions from those usually prone to sit back and listen. Most taxpayers are probably not adverse to paying their fair share, but others draw hard lines in the sand as to what defines "fair ". At the other extreme are those successful taxpayers who are truly grateful for an environment that has allowed them to prosper, and feel an obligation to give back far more than is required. Whatever point in the tax continuum you identify with, here are several of the more important elements of the recent tax compromise that will probably affect you directly through 2012.

1. The marginal tax brackets that were reduced during the Bush administration will be unchanged through 2012.

2. Capital Gains tax and Dividend taxes will continue at their 15% level through 2012.

3. To satisfy their Required Minimum Distributions, taxpayers may make charitable contributions in 2010 and 2011 of up to $100,000 from their IRA accounts, without having to pay tax.

4. Employee's Social Security taxes will be reduced from 6.2% to 4.2% in 2011.

5. The Estate Tax exemption has increased to $5M, with a 35% federal estate tax rate.

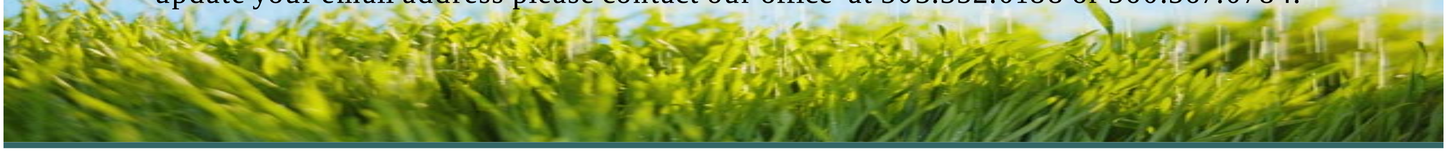
6. A Gift Tax exemption is also available, that allows an individual to place up to $5M in trust for future generations, ($10M for married couples), that will grow and pass to the heirs tax free. (Please note that the Gift Tax exemption reduces the amount available through the Estate Tax exemption)

7. Between spouses, the $10M Estate Tax exemption may be adjusted so that unused exemptions by one spouse may be added to the exemption of the other, but not exceeding the $10M limit. However, a spouse must die before 2013 for this to take effect.

8. The "Stepped Up Basis" for inherited assets is reinstated.

The Alternative Minimum Tax (AMT) "patch" is continued through 2011, offering some help to middle income taxpayers.
As we meet quarterly, let's be sure to discuss these changes and how they may affect our overall planning strategies.

Going Green! As we move forward you will be seeing more information from StoneRidge sent via email. This allows us to send information more often and **"green friendly."** If you would like to update your email address please contact our office at 503.352.0188 or 360.567.0784.



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Rock Solid Retirement & Estate Planning

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