I believe successful investors must remain patient, disciplined, and diversified through all economic cycles, especially during downturns. My firm helps manage the investments and behavioral attributes families need to pursue their goals. I trust this newsletter will help provide perspective and information as your family plans for the future.

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Roth IRAs

Powerful Planning Tools for All Generations

The Roth IRA offers ample tax benefits for retirement investors of all ages. However, if current income restrictions associated with Roth IRAs prevent you from using one for your own planning purposes (see table below), consider taking steps to ensure that your children or other younger family members establish and fund a Roth IRA.

A Roth Refresher Course

A look at the Roth IRA's unique features helps explain why it has proven to be a very popular retirement investment vehicle.

Tax-free withdrawals—Roth IRA earnings accumulate and can be withdrawn free from federal taxes, provided you have held the account at least five years and satisfy one of the following qualified distribution requirements:

- You are at least 59½ years old.
- Your distribution is used for a qualified first-time home purchase, not to exceed a $10,000 lifetime limit.
- You die or suffer a permanent disability.

If you are *under* age 59½ but have held a Roth IRA for five years, you may make penalty-free withdrawals to help pay for qualified expenses, such as a first home or certain education costs. In this case, your own contributions would not be subject to income tax or early withdrawal penalties, but any investment earnings would be taxed as ordinary income.

Lifelong contributions—Unlike a traditional IRA, with a Roth IRA you can continue to make contributions past the age of 70½ if you have earned income.

No required distributions—For many, the most important feature of Roth IRAs is that they do not require the account holder to take distributions during his or her lifetime. This feature can prove very attractive to individuals who would like to use the Roth IRA as an estate planning tool (more on this in a moment).

Who Is Eligible to Contribute to a Roth IRA?

In 2012, to be eligible for a ...	Your income must be ...*
Full contribution	$173,000 or less (if you are married and filing jointly) $110,000 or less (if you are single)
Partial contribution	Between $173,000 and $183,000 (if you are married and filing jointly) Between $110,000 and $125,000 (if you are single)

*Income refers to your adjusted gross income, or AGI. Your AGI is your gross income minus deductions.

Roth IRAs for Minors

One of the main contributors to successful retirement planning is time—the more of it you have, the better the result. For this reason alone, setting up a Roth IRA for a child can be one of your best long-term planning moves. When investment compounding has upwards of 50 years to run its course, even a relatively modest savings rate can produce substantial wealth.

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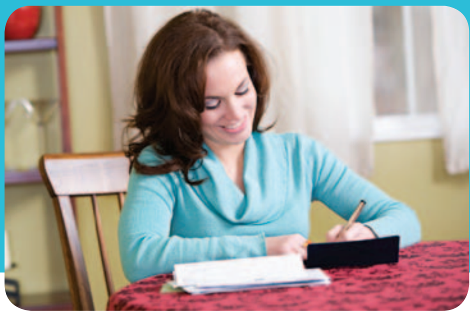
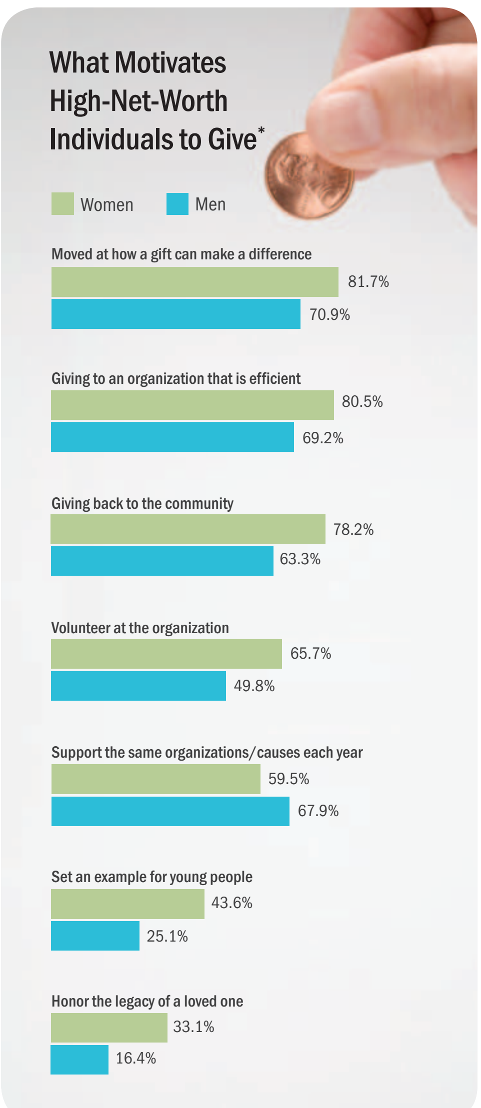
Charitable Intent

What Motivates Women to Give?



A new study conducted by researchers at the Indiana University Center on Philanthropy focused on the role that gender may play in the "whys" and "hows" of charitable giving. Not only did the study reveal differences in the giving styles of men and women, it also helped to point out women's philanthropic clout within households.



Reasons to Give—Gender Makes a Difference

Both men and women agreed on the top four reasons to give: (1) they believe their gift will make a difference, (2) they know the organization is efficient in its use of donations, (3) they want to give back to the community, and (4) they feel financially secure enough to open their wallets. However, within the top three priorities, women were significantly more likely than men to give.

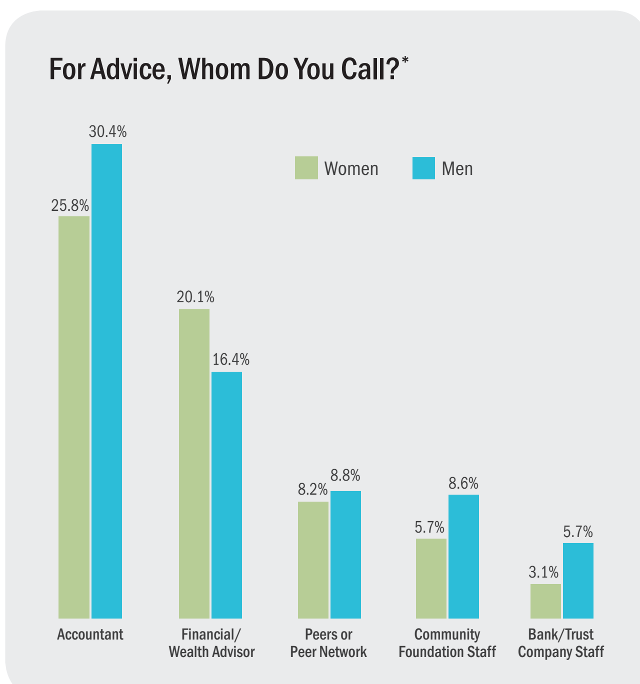
Women also indicated a softer side to their giving. For instance, more women than men preferred to give to a charity for which they also volunteered their time and to which they felt a connection. And women were far more likely than men to make charitable donations to set an example for young people or to honor the legacy of a loved one.

Men, on the other hand, were more likely than women to support the same organizations/causes annually (see chart to the left).

Dynamics of Decision Making

When asked how decisions about charitable giving were made among respondents who were married or living with a partner, nearly 90% of those polled said that women were either the sole decision-maker or at least an equal partner in a household's charitable-giving decisions.

Not only are women in charge of their own philanthropic agendas, they are also more strategic in their approach to giving than men. Specifically, 78.4% of women reported having a strategy and/or a budget for their giving versus 71.9% of men.



Advice Matters

While both men and women seek guidance when making charitable-giving decisions, they differ as to which type of professional to call upon. Men prefer to consult with accountants, banks or trust companies, community foundations and peer networks, while women prefer to use financial advisors.

*Source: "The 2011 Study of High Net Worth Women's Philanthropy and the Impact of Women's Giving Networks," sponsored by Bank of America Merrill Lynch, researched and written by the Indiana University Center on Philanthropy, December 2, 2011.

Three Financial Moves Small-Business Owners Should Make Now

As the global economy continues its slow recovery, savvy business owners should start to prepare for the inevitable upswing. What moves can entrepreneurs and the self-employed make now to better position themselves to prosper in the months and years ahead?

Here are three practical steps for small businesses to consider: As you will see, maintaining a sound financial foundation requires similar actions—whether you are balancing the company's books or your own household budget.

1. Keep the cash flowing. Cash is the heartbeat of any small business, but when receivables ebb due to the sluggish economy, a seasonal lull or other circumstances beyond your control, a cash reserve becomes an invaluable resource. Similar to a household "emergency fund," a cash reserve helps to keep fixed business expenses, such as payroll or a property lease, up-to-date. Aside from providing a safety net for your known expenses, reserve funds can also be used to cover unexpected costs, such as buying a new computer or repairing a leaky warehouse roof.

Essential cash reserve tip:

- When deciding on a reserve amount, keep the age of your business in mind. For example, a younger company may need and/or be able to fund only a month or two of expenses, while more established businesses may increase the amount of reserves they have on hand. To err on the safe side, start small and elect to put away just 3% to 5% of your net income each month.

2. Work to reduce debt. Low interest rates may be frustrating to businesses with cash in reserve accounts, but they spell opportunity for those holding mortgages or other types of loans with high interest rates.

Essential debt reduction tip:

- Now may be the ideal time to refinance loans and lock in lower rates for the long term. Conventional bank refinancing is one option to pursue. Another is the Small Business Administration's 504 "cash out" program, which allows small firms to refinance their commercial real estate mortgages and use the equity in the property as working capital. Visit the SBA's website at www.sba.gov for specific guidance and requirements.

3. Plan ahead for inflation. With a slowly improving economy and soaring federal deficits, many economists believe that inflation may rise in the next few years. For business owners with money invested in the financial markets, no immediate action is needed. Just be alert to what is happening in the economy and investment markets.

Essential inflation-fighting tip:

These investments may help defend your portfolio against the corrosive effects of inflation.

- Stocks. Although past performance is no guarantee of future returns, stocks have provided the best potential for long-term returns that exceed inflation.[1]
- Treasury Inflation-Protected Securities (TIPS). TIPS are bonds that issue a semiannual interest payment that is linked to the inflation rate. If inflation rises, the TIPS payment increases. If inflation drops, the payment decreases. TIPS guarantee a return of the principal even if the rate of inflation drops.

Work with a trusted financial advisor to determine what moves make sense for your long-term goals and overall financial situation.

[1] Investing in stocks involves risks, including loss of principal.

Investment Outlook 2012

Advisors Share Their Views

What asset classes and asset allocation strategies do financial advisors favor for the next 12 months? Here are the highlights from the *Investment News 2011 Industry Attitudes* survey.

Asset Class

Large-cap value stocks came out as the clear favorite among advisors with 71.2% expecting value stocks to outperform growth stocks over the next 12 months—that's up from 62.6% in last year's survey. Overall, 52% expected large-cap stocks to outshine other types of stocks in the coming year, 28.9% liked mid-cap stocks and 19.1% voted small-cap stocks the winners.[1]

Asset Allocation Strategies

When asked the following questions about asset allocation strategies, survey respondents gave the following answers:

What percentage of client portfolios are currently allocated to non-U.S. developed markets?[2]

38.7%: 11% to 20%

23.8%: 21% to 30%

19.0%: 1% to 10%

How have your recommended allocations to non-U.S. developed markets changed over the past year?

46.9%: Allocations have not changed.

28.3%: Allocations have decreased.

24.8%: Allocations have increased.

What percentage of client portfolios are currently allocated to emerging markets?[3]

55.2%: up to 10%

28.0%: 11% to 20%

6.0%: no allocation

How have your recommended allocations to emerging markets changed over the past year?

53.2%: Allocations have not changed.

18.5%: Allocations have decreased.

28.3%: Allocations have increased.

Source: *Investment News 2011 Industry Attitudes*, October 2011.

[1]Investing in stocks involves risks, including loss of principal. Past performance does not guarantee future results. Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments.

[2]Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.

[3]Emerging markets are generally more volatile than the markets of more developed foreign nations, and therefore you should consider this increased market risk carefully before investing. Investors in international securities may be subject to higher taxation and higher currency risk, as well as less liquidity, compared with investors in domestic securities. Returns are in U.S. dollars and reflect effects of currency fluctuations.

Roth IRAs

(Continued from page 1)

There is no minimum age requirement for opening a Roth IRA, and many—but not all—IRA providers (e.g., banks, mutual fund companies, brokerages, etc.) will accept accounts for minors. In most cases, the only real sticking point is whether your child has taxable earned income. Fortunately, there is no requirement that the same "earned income" is the money that is used to fund the IRA. For example, if your child earned income from a summer or part-time job but then spent it, there is no restriction on using money provided by parents to establish and fund the IRA account.[1]

For 2012, you can contribute up to $5,000 to a Roth IRA as long as your child earned that much. Contributions cannot exceed your child's income for the year.

Wealth Transfer With a Roth IRA

Perhaps the Roth's greatest advantage is its potential as a wealth transfer instrument. Since distributions are not required during the account holder's lifetime, if the account holder is a child, he or she theoretically could have held the account for a lifetime never having tapped into it, and then passed it on to his or her beneficiaries upon death. Even though the account would then fall under the same minimum withdrawal rules that pertain to traditional IRAs, the beneficiaries could choose to receive withdrawals over many years, continuing to earn tax-free income on the remaining account balance.

The key takeaway? The hidden value of the Roth IRA is in its exceptional wealth-building potential. To fully realize that potential, account holders and/or their heirs may want to take just minimum required distributions from the account each year and let the remainder continue to grow.

[1]Source: Fairmark.com.

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