

It Takes Vigilance to Navigate the New Financial Frontier

By Jim Coleman

Ben Bernanke's appointment to a second four-year term as Chairman of the Federal Reserve has prompted me to think about how dramatically the financial landscape has changed since he was first appointed Chairman in 2006. Although the Fed intervened in unprecedented fashion to curtail the biggest global downturn since the Great Depression, a magnitude of economic challenges still confronts our nation. We have yet to deal with \$2 trillion in bank-owned mortgage-backed securities. Unemployment inching toward 10% could mean more home foreclosures. Experts expect a big crash in the commercial real estate market. And the previously unflappable American consumer seems tapped out, unable to increase spending to boost the economy.

When President Obama re-nominated the Chairman this summer, he praised him for "bold action and outside-the-box thinking" that helped save our economy from a total freefall. I was particularly struck when the President noted of Chairman Bernanke, "Almost none of the decisions he or any of us made have been easy."

In fact, it's become increasingly clear that as the economy drags along, many individuals and families will need to make bold moves of their own. From a macro perspective, the borrow and spend - borrow and spend paradigm that sustained families, towns, even our nation is broken. With credit tight, no longer can consumers spend what they earn, plus what they can borrow. Global recovery requires an almost universal reduction in spending and deleveraging - paying down of debt.

As the government enacts legislation to guide the economy out of recession, I'd argue that in addition to being more responsible in terms of personal spending, American consumers must adopt a new vigilance in order to understand and take advantage of emerging opportunities. Simply, the risks we face today are too significant to go on with our daily lives without being aware of how new policies enacted by Congress, the Federal Reserve, and the Treasury are altering the playing field. Just as buy and hold no longer works as an investment philosophy, consumers must make more of an effort to stay informed in order to make well-reasoned decisions as our economy recovers from recession.

I suggest positioning for the transitioning market environment by considering a number of tactical moves from including inflation hedges in portfolios to pursuing other strategies. Just as we seek to remain nimble so we can react quickly to market opportunities, so, too, must individuals commit to staying informed so they are ready to take advantage of new federal programs. For example, the government's Car Allowance Rebate System (CARS), or Cash for Clunkers program, came and went before many consumers were informed enough to take advantage of it.

Remaining diligent also means staying abreast of opportunities as they emerge from Washington. This includes rebates for buying an energy-efficient refrigerator, and tax credits for energy efficient roofs, windows, doors, insulation, HVAC, and non-solar water heaters placed in service from January 1, 2009 through December 31, 2010.

While the dollar value of these rebates may be relatively small, I suggest that paying attention to and taking advantage of these programs from Washington will help cultivate the broader activist thinking I believe is now necessary. What's more, I encourage you to share the information I provide to you with colleagues, family, and friends where the stimulus offers could have an even greater impact. For instance, if your children or grandchildren are in the market for their first home, tell them that the American Recovery and Reinvestment Act of 2009 authorizes a tax credit equal to 10 percent of the home's purchase price up to a maximum of \$8,000 for qualified first-time home buyers purchasing a principal residence on or after April 8, 2008 and before December 1, 2009. Income limitations apply here.

Note that the tax credit is subject to income limits: \$75,000 for single taxpayers and \$150,000 for married taxpayers filing a joint return. The tax credit amount is reduced for buyers with a modified adjusted gross income (MAGI) of more than \$75,000 for single taxpayers and \$150,000 for married taxpayers filing a joint return. To learn more, visit: <http://www.irs.gov/newsroom/article/0,,id=206293,00.html>.

Of course, we can't limit our attention to stimulus programs. For example, there's a big change to IRS Section 42 that applies to some of you. When the Tax Reform Act of 1986 introduced tax credits as an economic incentive to increase the quantity and quality of low and moderate income housing, these tax credits were AMT neutral. That is, individuals could not use credits to reduce AMT. However, the Housing and Economic Recovery Act of 2008 for the first time has allowed these credits to reduce AMT. Bottom line: individual investors can use Affordable Housing Tax Credits for tax planning, converting tax liabilities into personal assets.

A provision with even broader appeal is the ruling that IRA distributions to charities are excluded from income. That is, if you are age 70 ½ or older, you can transfer up to \$100,000 from your individual retirement account (IRA) directly to your favorite eligible charitable organizations tax-free. Note distributions must be from IRAs; employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension (SEP) plans, do not qualify. However, this provision is coming to an end and will not apply to any distributions made in taxable years after December 31, 2009. To learn more, visit: <http://www.irs.gov/publications/p590/index.html>.

It's also wise to begin planning for a change that comes next year. If you see the wisdom of creating a nontaxable retirement income stream by converting your traditional IRA to a Roth IRA, but are prohibited from doing so because your modified adjusted gross income (MAGI) is over \$100,000, that income cap is scheduled to disappear in 2010, courtesy of the Tax Increase Prevention and Reconciliation Act of 2006. Restrictions, penalties and taxes may apply. Unless certain criteria are met, Roth IRA owners must be 59 ½ or older and have held the IRA for 5 years before tax-free withdrawals are permitted.

Finally, in addition to staying informed on all the stimulus programs and tax reforms emerging from Washington, our nation's economic recovery depends on us expanding our notion of vigilance to include more active participation in government. Rather than tune out problems, we must pay attention to how elected representatives are voting. Then share our thoughts for solutions by actively engaging with government by voting, writing letters or email and making phone calls, all of which can help us feel more in control.

Returning to Chairman Bernanke's appointment of another four year term promises a continuation of his more public, more powerful Federal Reserve where officials no longer cloak

themselves with a mantle of technocratic detachment. I suggest that by committing to becoming more informed and more active, the American investing public can increase its power as well.

About Jim Coleman

Jim Coleman has been in the financial services industry for over 20 years. He founded Coleman Financial Advisory Group, voted "The Best Financial Advisor of Greater Waterbury for 2008 and 2009". Coleman specializes in providing comprehensive financial planning, asset management and estate planning services. He holds a degree from Northeastern University, in Boston, with a double major in finance and marketing. He is a member of the Financial Planning Association and is the President of the Connecticut Chapter of the Society for Financial Awareness.

Coleman's passion is finding solutions to financial problems and further educating his clients and the community. Listeners in Connecticut rely on Coleman to deliver sound, accurate financial advice as host of *All About Money*, a radio talk program. He writes a financial planning column for a local newspaper, the *Prospect Pages*, and recently authored a book titled *Educated Investing: Your Guide to Surviving and Thriving in the Fast-Paced Global Markets of the 21st Century*. Visit www.ColemanAdvisoryGroup.com to learn more.

Sources: <http://www.miamiherald.com/opinion/editorials/story/1205835.html>
http://www.energystar.gov/index.cfm?c=tax_credits.tx_index.

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