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QtrNotes

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Trusts as IRA Beneficiaries:

Parents often worry that their children will draw down inherited retirement accounts too quickly and spend what it has taken a lifetime to accumulate.

If that is a concern, it is possible to name a trust as your IRA beneficiary. Special care must be taken to structure the trust properly as a valid "look-through" trust so that required distributions (RMDs) can be stretched out to maximize the tax benefits.

If a trust has multiple beneficiaries, the age of the oldest one will determine the distributions, so some of the "stretch" benefit to the younger beneficiaries is lost. Federal law makes it easier to stretch IRA distributions when individuals are named as the beneficiaries, but a trust beneficiary is worthwhile in some circumstances.

US Economy Edges Forward While Europe Retrenches

The US economy continues to grow, although the overall speed of the recovery has slowed. GDP growth in the first quarter was revised down to 1.9%, and projections for the second half of the year range from 1.9% to 2.4%. Consumers and businesses are still reluctant to spend and hire. Stock prices have been soft, with the market giving up in the second quarter some of the gains from the first three months, then soaring on hopeful news from Europe. Yields on US Treasuries fell below 1.5% as savers sought a haven for their cash.

Political uncertainty in the US is high, with the fall elections dominating the headlines. Looking at the longer view, the election results are unlikely to dramatically shift the economic trajectory. Either party will be forced to adopt some combination of spending reductions and revenue growth in order to make any progress on our long-term budget deficits and growing debt burden. We have already seen some states take on tough legislation to address budget issues, and expect the federal government will follow suit.

Markets remain fragile as investors have little to feel confident about: economic data has been weaker than expected and ongoing turbulence in Europe plagues our daily headlines. We sympathize with the sense of panic but believe it has been overblown. Although growth remains underwhelming, the economy is not going in the wrong direction. Despite risks in all markets, diversification continues to serve us well.

Over the last six months, unemployment has fallen only slightly overall, virtually plateauing in the current quarter as job gains fail to keep up with the expanding number of workers. The manufacturing sector remains a bright spot, as it has continued to add jobs for 2.5 uninterrupted years. Although initial claims for unemployment insurance rose in May, the trend still shows improvement for the year. Weak job growth means little inflationary pressure on wages. With many homeowners still underwater, job mobility is hampered by workers' inability to sell a home and relocate for a better job.

Index	*6/30/2012*	*% YTD*
Dow Industrials	**12,880.00**	**5.4%**
S&P 500 Index	**1362.16**	**8.3%**
Russell 2000	**798.49**	**7.8%**
MSCI EAFE	**1423.38**	**0.8%**
Global Bond Index	**458.26**	**1.5%**
10-Year Treasury	**1.62%**	

The housing sector is showing signs of life, with building permits and housing starts increased over 25% since last year. Housing prices show signs of bottoming in many distressed locations, although homes are still moving slowly and prices are well below levels of 4 years ago.

Inflation has been muted, with energy prices declining sharply while other costs rose. In its attempt to fulfill its dual mandate to maximize employment and stabilize prices, the Federal Reserve has kept interest rates artificially low, causing pain to savers eager for yield while borrowers have benefited from lower rates. Chairman Bernanke has indicated the Fed is prepared to take more aggressive action if required. We believe further action will be needed.

A long-term solution to Europe's problems remains elusive, but leaders have agreed to establish a single banking oversight mechanism for the region, an important first step towards integrating and stabilizing their financial system. The agreement will provide direct loans to banks, improving their balance sheets, reducing borrowing costs, and supporting lending. Some form of FDIC insurance for European banks will be the next step to improve confidence. Though not comprehensive, these are steps in the right direction.

Euro bonds may be the logical next step to provide debt relief to the weakest nations.

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From the IRS:

The unified credit is now inflation-adjusted. The basic credit exempts $5 million for 2011 and $5,120,000 for 2012. It is scheduled to revert to an exemption of $1 million from estate tax in 2013.

Stats:

SIX MONTHS

- The second half of the year (July-December) has outperformed the first half of the year (January-June) for the S&P 500 on a total return basis during 8 of the last 11 years. *(source: BTN Research)*

A ONE HUNDREDFOLD INCREASE

- The FDIC deposit insurance amount has increased from $2,500 in 1934 to $250,000 today. The total is per depositor, per insured bank.

(source: Federal Deposit Insurance Corporation)

WHAT THEY'RE WORTH

- The median net worth of the richest 10% of Americans increased +1.9% from 2007 to 2010, rising from $1.172 million to $1.194 million.

(source: Federal Reserve)

BABY BOOM

- A child born in 2011 will cost a higher-income family (defined as those making at least $102,870 of before-tax income) $389,670 in 2011 dollars and $490,830 in inflation-adjusted dollars over the first 17 years of the child's life (excluding college).

(source: Department of Agriculture)

IRA Rollovers - Self-Serving? Absolutely!

When our clients change jobs or retire, we are often asked, "Should I roll over my 401k to an IRA?" Answering "Yes" might seem self-serving for us. But there are important benefits for you to get that money out of your old 401k!

The most important reason to roll over your retirement funds is to take control of your money. As long as your money is in that 401k, a great deal of power remains in the hands of the retirement plan trustees. They choose the plan administrator, the investment provider, available investment options, restrictions for withdrawing money, loan availability, and vesting schedules. The trustees don't need your permission to make changes, nor do they usually ask for your input on their decisions. Also – not common, so not meant to scare you – there is the risk of fraud when the control is not in your hands. In the post-Madoff world, we have read about several instances and even witnessed one locally in which the plan trustees dipped into or mismanaged the retirement accounts unlawfully. In addition to eliminating many of these issues, an IRA also allows easier access to penalty-free withdrawals for college expenses or buying a house.

Rolling over to an IRA also gives you access to more investment options. With over 10,000 mutual funds available, why limit the future of your retirement to the handful of offerings within a 401k? By rolling over to an IRA at a brokerage firm (like Schwab), your investment options are virtually unlimited, with access to stocks, bonds, mutual funds, ETFs, CDs, structured notes, and even hedge funds.

Third reason … and this is where the self-serving element comes into play: rolling over gives you full access to professional management and advice, as well as transparency. Most people don't know this (see above regarding lack of full control), but there are often several layers of fees within a 401k: contract fees, plan administration fees, the underlying fund fees, and commission fees, to name a few. Despite all the fees, rarely does the end user get personal advice on how to manage and invest a 401k. By rolling your retirement account into an IRA, you allow your investment advisor to incorporate these funds with your other investment assets for better advice, oversight, and reporting.

As with everything, there are trade-offs. When rolling out of a 401k, you lose a layer of federal legal protection that shields 401k assets from lawsuits. However, most states, including Florida, grant IRAs similar protection, so check your state's laws before rolling over. Other trade-offs may include losing the ability to take a loan from your 401k, losing access to a unique investment only offered inside that 401k, and possibly the chance of taking a penalty-free early retirement at age 55 versus the standard 59½ for an IRA.

If you have an old, forgotten 401k hanging out there, we are here to help you get it on track with your retirement goals. Even for active 401k accounts, you don't have to wait for a rollover opportunity to get our help. We can now incorporate and manage your 401k holdings within your Firestone portfolio.

International Malaise

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Germany continues to reject calls for establishing such bonds. Their stubbornness is justified, as these bonds would increase Germany's own debt burden and cost of borrowing. However, if the bonds are ultimately created, the act would almost certainly be well-received by the markets.

If all measures of support fail, the alternative to financial integration of Europe may be to break the Euro zone apart. Looking back, it is easy to argue that the euro itself is a failed experiment. Contrary to doomsayers, the act of dismantling the root cause of Europe's problems might break ground for a long-term rejuvenation of the region. Weaker nations such as Greece, Spain, and Portugal could start to print their own currency and allow it to depreciate in value. Financial institutions in Europe would experience currency losses, and some would likely be nationalized. Given that many European banks are already partially nationalized, definitive government guarantees would add strength and allow for increased lending activity. After the devaluations and banking reorganization, private capital could return in waves to buy up cheap assets.

In the face of instability, there is reason for optimism. We believe the worst of the pain has already been priced into the markets. Company valuations in the region have been battered, and stocks are slowly becoming attractive again. The stress in Europe is likely to continue. We maintain our defensive posture but are keeping a close eye on future opportunities in the region.