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Six investment moves for year-end

The end of the year is an optimal time to make investment moves, particularly as they relate to taxes. Here are six ways you may benefit.

1. Review your portfolio. In some cases, adjustments to your asset allocation may be required. For instance, if one investment class has increased or decreased in value, it could represent a higher or lower percentage of your portfolio than intended. Sales or acquisitions can bring your allocation into balance. **Note:** Asset allocation does not protect against losses in a declining market.

2. Seek capital gains or losses. From a tax perspective, you might realize capital gains at year-end to offset existing capital losses. Conversely, you could realize losses to offset gains. Any excess loss can offset up to \$3,000 of ordinary income. If you still have an excess loss, it may be carried over to next year. **Note:** The maximum 15% tax rate on long-term capital gain (0% for certain low-income investors) has been preserved through 2012.

3. Avoid loss of tax losses. Under the "wash sale rule," you cannot claim a tax loss on the sale of securities if you acquire substantially identical securities within 30 days of the sale. To avoid complications, you can wait 31 days or longer to buy back securities sold at a loss. **Note:** If you think a security is poised to rebound, you might acquire more shares first and then wait 31 days or longer to sell the original security.

4. Count on your tax "basis." For tax purposes, your basis is generally the acquisition cost plus certain adjustments such as commissions. You may use an average cost per share for securities when you own multiple shares. Alternatively, you might identify certain shares as the ones being sold. Thus, year-end planning may increase a taxable loss or decrease a gain. **Note:** Brokers are required to provide basis figures for securities acquired after 2010 (phased in over three years).

5. Weigh a Roth conversion: Distributions from traditional IRAs are subject to tax at ordinary income rates reaching as high as 35%. If you convert a traditional IRA to a Roth, the conversion is treated as a taxable event, but qualified distributions made in the future from a Roth in existence at least five years are completely tax-free. You may opt for a partial conversion. **Note:** Unlike in 2010, you cannot defer tax over the following two years for a conversion in 2011.



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Six investment moves

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6. Give to charity. When you give charitable gifts of cash and/or property at year-end, you can reduce your tax liability for 2011. **Special tax break:** If you donate securities held longer than one year, you can generally deduct the fair-market value of those securities. **Note:** Be sure to observe the strict substantiation rules in this area.



Any Questions?

Please contact us. We would be glad to serve you in any way that we can.

How to corral your retirement needs



For many Americans, retirement is the “last frontier.” Will you have saved enough to live comfortably on a fixed income? Will you be forced to make drastic changes in your lifestyle? Will you be able to live long in relatively good health? Will you happily ride off into the sunset?

Although your overall fate is still unknown, you can improve the likelihood of a happy ending by assessing your situation and reacting accordingly. Here are several steps to follow:

 Figure out how much income you will need in retirement. Start with the amount of income you need right now. Although estimates of your exact requirements will vary widely, you can assume that you will need an amount close to your current income, minus some obvious amounts such as the monthly mortgage payment if your home is or will be paid off and college expenses if the children have already graduated. **Caveat:** While you may not have to save extensively for retirement anymore, retirement saving cannot end completely.

 Figure out how much you will receive from outside sources. This includes amounts you can expect to receive from Social Security and qualified retirement plans such as

IRAs if you have been able to set aside funds in these vehicles. Of course, Social Security remains a political “hot potato,” and its future for Baby Boomers and subsequent generations remains somewhat uncertain. Nevertheless, you can obtain projections under current law by accessing the online calculator provided by the Social Security Administration (SSA). The SSA says the average is \$14,000 a year in 2011; \$23,000 for a couple.

 Figure out how much income you will need from your investments. Once you have figured what you will need and what you will receive, you can determine the amount from investments needed to pick up the slack. But understand that this income will have to sustain you through a hopefully lengthy retirement. As life expectancies continue to increase due to medical advances, the projected needs of investors increase too. If you are retiring this year, you may need to plan for an additional 25 or 30 years of living - maybe more.

 Figure out how to invest. There is a wide variety of investment options at your disposal. Of course, you must balance the potential rewards against your tolerance for risk. Everyone’s situation is different, so develop a plan of action with the assistance of your financial professionals.

Last, but not least, do not panic. If you find that you’re significantly short of meeting your goals, there is some comfort in knowing that you are not alone. Among workers older than age 45, only 54% have managed to save \$25,000 or more, despite several periods of robust growth in the equities markets*.

In a pinch, you may consider scaling back, moving to a less expensive location and delaying retirement for a year or two. Doing so gives you more time to save, provides a longer time period for savings to grow, reduces the time you will be living on a fixed income and may increase your Social Security benefits.

*Source: Employee Benefit Research Institute, March 2011.

Wrapping up lifetime gifts

Thanks to recent tax law changes, you might want to arrange generous gifts to family members during the upcoming holiday season. The gifts can reduce the size of your taxable estate and save money in the long run. Here is a brief overview of the basic rules.

Annual gift-tax exclusions: Under the annual gift-tax exclusion, you can give away a specified amount each year to a recipient without paying any federal gift tax. The exclusion, which is indexed for inflation, is \$13,000 for 2011. For example, you might give up to \$13,000 to each of your two children and three grandchildren - a total of \$65,000 in gifts - without triggering any gift tax.

Furthermore, the annual gift-tax exclusion is doubled to \$26,000 if your spouse joins the gift-giving. In other words, you might give away \$26,000 to each of the five family members free of gift tax. That totals \$130,000 in tax-free gifts. As an example, by taking this approach for five years in a row, you can reduce your taxable estate by \$650,000.

Cumulative gifts: The amount of any gifts made above the annual gift-tax exclusion may be sheltered by the lifetime gift-tax exemption (although this reduces the available tax shelter for your estate). Prior to the 2010 Tax Relief Act, the estate- and gift-tax systems were severed, with the lifetime gift-tax exemption remaining locked at \$1 million.

However, the new tax act now reunifies the two systems with a maximum exclusion amount of \$5 million per person

for 2011 and 2012. (The exemptions are also portable between spouses.)

Therefore, going back to our previous example, a married couple could effectively give away up to \$10 million over the next two years in addition to the amount covered by the annual gift-tax exclusion (e.g., \$650,000 for five years). That provides plenty of flexibility for most families.

Educational and medical gifts: You can pay qualified expenses directly to a medical provider or educational institution on behalf of others without incurring any gift-tax liability. For instance, if your child or grandchild is attending college, pay the youngster's tuition directly to the school.

Note that these gifts do not count against the amounts sheltered from gift tax by the annual gift-tax exclusion. In other words, you can pay a child's tuition and still give him or her \$13,000.

How can your family benefit? As the end of the year approaches, you might

set up a gift giving program to maximize the tax benefits. For example, you can give \$13,000 to a family member in December and another \$13,000 to the same person in January. Because the gift-tax exclusion is annual, both gifts are sheltered from gift tax.

Reminder: Coordinate your lifetime gifts as part of an overall estate plan. Currently, the estate-tax laws are scheduled to "sunset" after 2012, so your plan should be flexible enough to accommodate changes.



Balance out risk and reward

Risk and reward: These two seem to go hand-in-hand most of the time. Frequently, the higher the potential risk you are taking, the greater the potential reward can be, especially when it comes to investing your hard-earned money. Yet the relationship between the twin concepts of risk and reward is often misunderstood by the general population.

For starters, be aware that human nature can play a prominent role in this equation. For example, you might stubbornly cling to a stock investment that continues to decline because you are unwilling to admit you made a mistake. In the meantime, you could be missing out on a more profitable

opportunity if you had invested the money elsewhere.

Of course, you cannot know for certain that an alternative would provide a better return - there are no absolute guarantees in the investment world - but there's no sense in throwing good investment money after bad.



Balance out risk and reward

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On the other hand, investors may be willing to take extraordinary risks for a chance to “hit the jackpot,” even if the odds are much better for a smaller payoff. This can be attributed to wishful thinking or inaccurate calculations - or both.

Classic example: Given the choice between a 1% chance to win \$1 million and a 2% chance to win \$500,000, some people, if not most, will risk their money on the \$1 million bonanza. Nevertheless, the odds for getting the \$500,000 payoff are twice as good.

As a general rule, the best investment approach is to take a long-term perspective that focuses on your main financial objectives. Undoubtedly, this may include some exposure to risk in the equities market.

For instance, investors often find that having a modest amount of risk in their portfolio is generally an acceptable

way to increase the potential of achieving their investment goals. By diversifying their portfolio through various investments with different degrees of risk, they may be able to take advantage of a rising market and benefit from some protection from losses in a declining market.

Naturally, there is an inherent risk in this process, and past performance does not guarantee future results. You should consider all the critical aspects of assembling a diversified portfolio, including your financial status, your time horizon, your health and your personal risk tolerance.

Last but not least, remember that everyone’s situation is different. By developing a long-term plan for investing your money, you can strike a balance between risk and reward that is appropriate for your particular situation.

Best approach: It is recommended that you obtain professional assistance for your situation.

SEC Imposes New Disclosure Rules



The U.S. Securities and Exchange Commission (SEC) has adopted new rules affecting registered investment advisors (RIAs). Among the changes that went into full effect on July 21, 2011, RIAs must present information to clients in brochures written in “plain English.” The new rules also require certain disclosures. Some of the key points include:

- The amount of client assets under management
- Disclosure of the risk of loss
- Fee schedules including transaction costs and other expenses
- Potential conflicts of interest arising from sales of certain investments or outside business activities of officers and representatives
- Relevant legal or disciplinary events of representatives and management

Bottom line: You should have a better understanding of the rules and more information at your disposal.

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