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Money At Work

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Five reasons to revisit equities

After the recent stockmarket decline, many investors chose to scale back their investments drastically or sit on the sidelines completely. However, going forward, there are several valid reasons why you might renew your interest in a broad range of equities.

Here are the five prime examples:

1. The stock market doesn't play favorites.

It's not like there's a "secret club" for winners, and losers can't get in because they don't know the password. The main elements for being successful - such as doing your homework and understanding the fundamentals - are available to everyone. Although institutional investors and some well-heeled individuals may gain a leg up due to greater resources, anyone else can obtain the information needed to be successful. Just remember to balance the chance for reward against the inherent risks.

2. The stock market moves in cycles.

Historically, it has rebounded following a recession or a bear market. The recovery may be graded or swift or marked by volatility. Immediately after a steep decline, aggressive investors can take advantage of "bargains" in the market. As more investors return, prices will begin to increase. Typically, the market will rise until a correction occurs, usually as a result of diminished investor confidence.

3. The stock market is regulated.

One of the offshoots of the decline spanning 2008 and 2009 is that rules for the financial services profession have been tightened, both in terms of the financial products offered and the transparency afforded to investors. Similarly, regulators are seeking to protect investors from Ponzi schemes like the one perpetrated by Bernard Madoff.

The current environment should enable investors to make informed decisions based on the complete picture.

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Five reasons to revisit equities

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4. The stock market offers potential for both current income and long-term growth. Although the recent downturn has affected some dividend payouts, the situation is expected to change as the recession abates. While some companies will slowly recover, others could experience more rapid growth, providing greater benefits. Because investors are likely to be more wary of risk, companies with a good dividend-paying history will likely become more attractive to investors over the long haul. Dividends are not guaranteed and must be authorized by the company's board of directors.

5. The stock market provides flexibility. You can buy, sell, or hold stocks, in any combination, with relative ease. Although this is not unique among the various types of investments, this gives equities versatility. Depending on your situation, you may trade actively or generally hold onto stocks for the long term, the choice is yours.

Keep your eyes wide open to the possibilities - both positive and negative. If you decide to return to equity investments, a professional adviser can help you find your comfort level.

How to help pay for college

Based on the latest information from the College Board (see chart), the ever-rising cost of college can be daunting to cash-strapped parents. But you can still manage to put a sizeable dent into the projected tuition bill if you're dedicated. Consider the following:

Average College Prices: 2009-2010	
Private four-year	$26,273 (up 4.4 percent from last year)
Public four-year	$7,020 (up 6.5 percent from last year)
Public two-year	$2,544 (up 7.3 percent from last year)

In the current year, students will pay, on average from $377 to $420 more than last year's room and board, depending on the type of college.

The average surcharge for full-time, out-of state students at public four-year institutions is $11,528.

Source: College Board

★ Try to save money regularly.
This should become a top priority right along with paying the mortgage or meeting your insurance bill. Review your expenses and try to determine the amount you can safely set aside each month. No matter how little you can spare, the savings may grow substantially if you start early enough. And it's a lot less painful than if you wait until the day your child gets his or her letter of acceptance.

★ Be tax wise about investing.
For instance, certain investments may generate income that is either tax free or tax deferred. You also can set up a system to have the income paid out at regular intervals during the time your child will be attending school. Furthermore, you may reduce the resulting tax liability if funds are put in your child's name. Caution: Don't overlook the "kiddie tax." Generally, unearned investment income received by your child in 2010 will be taxable at your top tax rate to the extent it exceeds $1,900.

★ Check out financial aid options
While financial aid may be limited to the neediest families, your child still may be eligible for some type of state or federal financial assistance. This can come in the form of a grant, a work/study program or a low-interest loan.

★ Research Section 529 Plans
If certain requirements are met, the funds in a Section 529 plan can grow, without current tax and may be withdrawn tax-free if used for qualified education expenses. There are two basic types of 529 plans: prepaid tuition plans and college savings plans. In brief, prepaid tuition plans enable you to lock in future tuition rates at in-state schools. College savings plans generally provide more flexibility for choosing a school, but without the same guarantees.

Note that intrafamily gifts can help. Grandparents can also set up a Section 529 plan for the benefit of a grandchild. Or a grandparent can give each grandchild $13,000 directly without any gift tax this year.

Before investing, the investor should consider whether the investor's or beneficiary's home state offers any state tax or other benefits available only from that state's 529 plan. Coordinate your actions with the help of a professional adviser.

Inheriting an IRA? Weigh your options

At some point, perhaps in the near future, you may inherit an IRA from your spouse or another relative. The rules for inherited IRAs can be confusing, especially since you're likely to be emotional over the passing of a loved one. Take a deep breath and consider the options.

For simplicity, this discussion will be divided into two sections: one for spousal beneficiaries and the other for nonspousal beneficiaries. Spousal beneficiaries generally have more flexibility than nonspousal beneficiaries.

Spousal beneficiaries: Assuming you are the sole beneficiary of a traditional IRA, you may choose to treat your spouse's IRA as your own. This means you can contribute to the IRA if you have compensation. Furthermore, if you're under age 70-1/2, you don't have to take required minimum distributions (RMDs). ***Note:*** RMDs are generally required after reaching age 70-1/2. This requirement for IRAs was temporarily suspended, but only for the 2009 tax year.

Alternatively, you may leave the IRA in your spouse's name, with you as the beneficiary. If your deceased spouse died after age 70-1/2, you generally must base subsequent RMDs on the longer of your life expectancy or the deceased's life expectancy. Otherwise, distributions may be based on your single life expectancy, or the account must be emptied out in five years.

Another possible option is to roll over the inherited IRA assets into your own IRA. The rollover is exempt from current tax liability if completed within 60 days. Best approach: Use a "trustee-to-trustee" transfer to avoid tax withholding on the distribution.

Nonspousal beneficiaries: If you have inherited an IRA from someone other than a spouse, you cannot treat the IRA as your own. Thus, you are neither permitted to make subsequent contributions to the inherited IRA, nor can you roll over the funds to your own IRA. However, you can still arrange a trustee-to-trustee transfer to another IRA maintained in the name of the deceased IRA owner. In this case, you must begin taking RMDs subject to the rules that apply to IRA beneficiaries. (Remember the temporary suspension of RMDs for the 2009 tax year.)

Note that distributions from an inherited IRA are taxed at ordinary income rates. (The maximum tax rate for 2010 is 35 percent.) If you fail to take an RMD, you must pay a penalty tax equal to 50 percent of the required amount of the distribution.

Be aware that this article only summarizes the main rules when you are the sole beneficiary. Other rules may apply when a Roth IRA is inherited. Finally, it is important that each IRA account be properly titled. Consult with a financial professional concerning your particular circumstances.

Key Points on Homebuyer Credits

Under a new law enacted late in 2009, the first-time homebuyer credit has been extended to purchases made before May 1, 2010 (July 1, 2010, if a binding contract is in place on May 1, 2010). The maximum $8,000 credit may be elected on your 2009 tax return for a qualified purchase in 2010. Also, this tax credit can be claimed by more upper-income individuals than before.

New rule: The credit is also available to individuals other than first-time homebuyers for purchases made after November 6, 2009. If you have owned and used your old home as your principal residence for any five consecutive years during the previous eight years, the maximum credit is $6,500.

Addressing long-term family needs

Currently, the average life expectancy in the United States is 77.8 years. Of course, that's good news. However, an elderly relative who needs expensive long-term care could cause financial and emotional problems for the rest of the family.

Because the risk of needing long-term care increases with age, it is important to plan ahead, both for yourself and other family members. The optimal time to take steps is when you are relatively young and in good health.

Background: Long-term care is the type of help people need when they are unable to perform activities of daily living, such as eating, bathing, and dressing. Typically, it is not provided by doctors or by skilled nursing professionals.

Frequently, it is assumed that long-term care means care in a nursing home. While some people do require such specialized care, long-term care may vary. Family members, adult day care centers and assisted-living facilities are among the most common care providers. Long-term care is not defined by the setting in which it takes place, but by the type of care needed.

The family dynamic today little resembles that of even a generation ago. Children live half a world away, single-parent homes are more common and more women are finding success in their careers. The safety nets that many relied upon in the past - such as family caregivers - may no longer be available to those requiring care.

Long-term care has an impact on the entire family, not just the person who needs care. A family member - usually a middle-aged adult with children of his or her own - often assumes the role of unpaid caregiver for an aging parent or spouse. These caregivers typically must make adjustments at work and in their careers, such as taking leaves of absence or turning down promotions, to provide the needed care for an ailing relative. Being a caregiver may also have an impact on his or her own family life and overall personal health.

In summary: With advance planning, you can help protect the family's assets and lifestyle. Address the risks before it's too late.

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