



Pathways

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The Sandwich Generation: The Pickle in the Middle

If you're helping your parents and trying to meet your own children's needs while looking ahead to your own retirement, you're part of what's called "the sandwich generation." Here's a recipe to help you cope with being jammed in the middle.

Chart the terrain

First, conduct an assessment of your current financial situation and financial goals. Make improvements where you can, and develop a budget you can stick to. Be sure to monitor your finances so you can adjust to changing circumstances.

Then conduct a similar assessment of your parents' and childrens' finances as well, so that you fully understand their current situation.

The process of determining a family's financial priorities can be difficult, especially with 3 generations sharing resources. To be effective, while maintaining family harmony, it is best if first approached with an honest discussion as to what each family member truly requires and desires, before getting sidetracked by the numbers and obstacles. Agree to the family's goals first, then work out the trade-offs together if and when obstacles arise.

The goal prioritization shown below may be common but it is by no means meant for everyone. Your exploration may lead to a vastly different view for how to best allocate family resources. The key is that all family members understand and agree to the highest and best use of resources for all the generations, taken as a whole.

Keep your retirement savings plan on track

First and foremost, if your retirement is priority #1, resist dipping into your current retirement savings, and try to keep your retirement savings plan on track. Make investing in your financial future a priority by maxing out your 401(k) and/or other retirement savings plan; at the least, contribute as much as your employer will match.

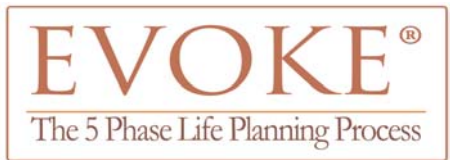
Put your child's college education on the front burner

If your children's college is another key goal, and if based on your financial planning, you've determined how much needs to be saved, then start saving, and with college tuition soaring, the sooner, the better. There are several college saving options--consider tax-advantaged strategies such as college savings plans, Coverdell education savings accounts, and U.S. savings bonds.

Look into the wide variety of financial aid programs available during college, such as scholarships, grants, work-study employment, and student and parent loans. Financial aid is based on two things: the cost of a college education and your ability to pay. You'll find an increasing number of families with significant incomes now qualify for aid.

Help your parents manage

If you need to help your parents manage their affairs, you'll need legal authority to do so. Make sure your parents have a durable power of attorney authorizing you to sign checks, pay bills, and make financial decisions.



THE FINANCIAL LIFE PLANNING PROCESS

- Exploration
- Vision
- Obstacles review
- Knowledge transfer
- Execution and monitoring

About New Wealth Advisors.

New Wealth Advisors is an independent, fee-only, SEC-registered investment advisor, operating as a multi-family investment office. We work with newly wealthy individuals and families to protect, grow and manage assets.

Also make sure your parents have health-care directives allowing you to make medical care decisions according to their wishes. And be sure your parents have a will that's been updated recently.

If your parents have limited income, talk to them about their options. For example, can your parents sell their home or access the equity they have in it to increase their income? Will they need to move in with you or another family member? If this is hard to broach, you may want to use a trusted professional trained in facilitating family discussions, such as a Registered Life Planner (RLP).

Long-term care insurance

Since government programs such as Medicare and Medicaid, traditional health insurance, and disability insurance may not adequately cover the cost of long-term care, look into long-term care insurance. The cost of a long-term care policy will depend primarily on the ages of your parents, but it also depends on the benefits you choose. Our Certified Financial Planners would be happy to assist you in learning more about LTC coverage.

Get support and advice

If you're feeling the squeeze, you're not alone. There's plenty of help out there, from local programs to national organizations, from books to websites. And consider discussing the specifics of your situation with our professionals at New Wealth Advisors.

Understanding Mutual Fund Expense Ratios



Every mutual fund must disclose certain costs associated with running the fund. Those costs represent a fund's expense ratio, which is expressed as a percentage of a fund's assets. For example, a fund that has \$100 million in assets and annual expenses of \$1 million would report a 1% expense ratio.

Why is a fund's expense ratio important? First, it can help you gauge how efficiently the fund operates. A high expense ratio reduces the amount that is paid to you as a shareholder. Second, a fund's expenses affect your net returns, particularly over the long term. For example, let's look at a hypothetical illustration. Assume you have \$10,000 in one stock fund that earns a 5.5% return and \$10,000 in another stock fund that earns exactly the same return but that costs you an extra half-percent in expenses. The difference between 5.5% and 5% over 20 years means a \$2,645 reduction in your bottom line.

That's not to say that you should automatically reject a fund just because it has a high expense ratio if the fund's performance is worth the higher cost. However, you do need to take expenses into account, especially if you're investing for the long term.

Some general categories of funds tend to have higher expense ratios than others. For example, a stock fund that specializes in emerging markets may have to spend more on research than a fund that invests only in large-cap U.S. stocks for which a great deal of information is readily available. A fund that is actively managed may have higher expenses than a fund that mirrors an index.

Each mutual fund's prospectus must include a table in the front that

you can use to compare the expenses of various funds. The table lists the fund's expense ratio as well as a breakdown of the costs included in it, which fall into three general areas: management fees, marketing costs, and administrative fees.

Management fees

Every fund has an investment management or advisor firm that manages the fund and makes investment decisions. Even an index fund, which does relatively little trading and whose investments basically duplicate those of an index, will have a firm or an individual who handles any transactions. Management fees often represent the single largest portion of a typical fund's expense ratio.

Marketing costs

These costs also are known as 12b-1 fees, after the legal provision that permits them. They were originally designed to let funds recoup costs associated with distribution and advertising, on the theory that attracting new investors and additional assets would help make a fund more cost-effective for each investor. In recent years, there has been discussion of whether 12b-1 fees should be eliminated--especially for funds that are closed to new investors and therefore should have little need to market themselves--but they are still very common.

Administrative fees

This category of fees includes the cost of recordkeeping, custodianship, taxes, and legal, accounting, and auditing services.

What's not included in an expense ratio

Trading expenses represent the cost of buying or selling securities, and also can have a substantial impact on your net return over time. Trading costs, which include commissions paid by the fund when it buys or sells a security, aren't included in a fund's expense ratio. However, funds are required to report the per-share cost of their annual commissions; this can be found in a fund's annual report or Statement of Additional Information.

Also not included in the expense ratio is any redemption fee a fund might charge if you sell your shares before a specified time, or any sales charge the fund might impose at the time of purchase or sale.

Before investing in a mutual fund, carefully consider its investment objectives and risks as well as its charges and expenses. This information is available in the prospectus, which can be obtained from the fund. Read it carefully before investing.

Running the numbers

To get a true picture of a fund's performance, you do not need to deduct a fund's expense ratio from the returns quoted in its prospectus. The figures that measure average annual and cumulative return have already taken both operating and trading costs into account.



Comparison shopping

The "Tools and Calculators" section of the Financial Industry Regulatory Authority (FINRA) website includes an online Fund Analyzer that lets you compare the impact over time of the fees and expenses of as many as three funds.



Arbitrage Strategy and Roth IRA Conversions

EVOKE®

The following is a recent blog post by Carl Famiglietti, CPA and Managing Partner of MFA - Moody, Famiglietti & Andronico.

I would like to highlight an interesting perspective for those who hold within their IRA accounts unregistered securities or investments in limited partnerships such as private equity, venture capital and mezzanine: using an arbitrage strategy.

Let's begin with a little background:

Investing IRA money in qualified unregistered investments has been within the bounds of IRS rules since 1974 and a common practice among most venture capital and private equity investors. Fast forward to 2010, sprinkle in a little bit of federal government stimulus, and qualified investors can now participate in a once in a lifetime opportunity to create their own personal tax-exempt entities (Roth IRAs) and at the same time arbitrage multiple premises of value.

The Arbitrage:

Let's say you or someone you know is a high net worth individual who has accumulated unregistered securities within their IRA and these same securities are valued at \$3.5 million by the company, its general partner and their outside accountants using United States Generally Accepted Accounting Principle SFAS No. 157 or some other comparable methodology. SFAS No. 157 value, which may not necessarily approximate the IRS' minority, non-marketable value standards, is only one of many values that a single security can have in the same day. For example, these values may appear as:

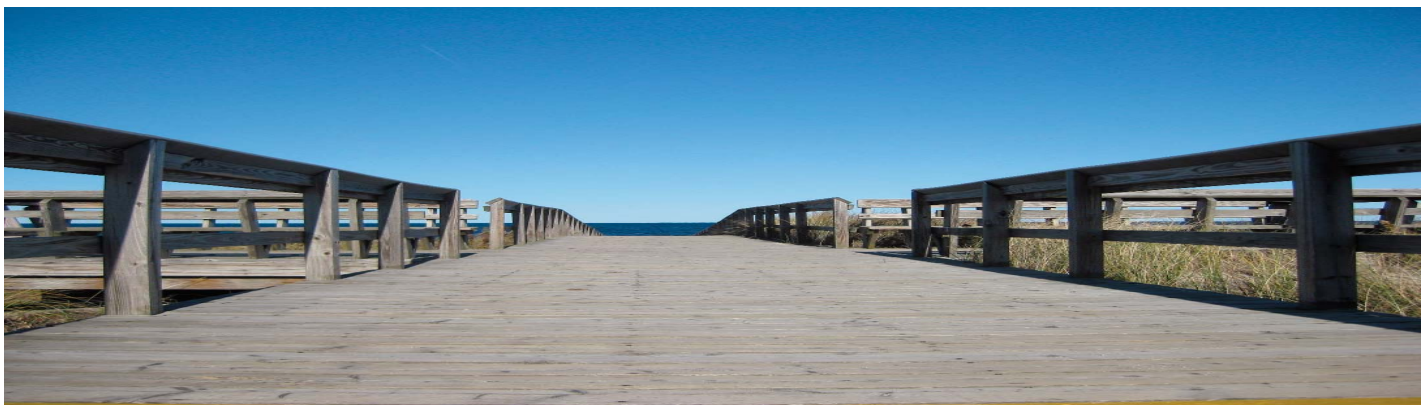
- Control, marketable value \$ 6.5 million
- SFAS No. 157 minority, non-marketable value \$ 3.5 million
- IRS minority, non-marketable value \$ 3.0 million

Three distinctive values, same day, same security! This multiple premise of value translates into a permanent taxable income variance of \$3.5 million (\$6.5 million less \$3.0 million) – allowing for a federal and state income tax savings of \$1.50 million (assuming an effective 42% tax rate).

The benefit of a Roth IRA, as most people know, is its tax sheltering power over future interest, dividends and capital gains. It is the extra girth of the arbitrage that drastically influences the time value of the tax conversion costs and provides the ultimate wealth accumulating advantage. A time elapse example: under a three year premise that the underlying securities appreciate at a 15.0% CAGR, the arbitrage increases from \$3.5 million to \$5.3 million. Roth IRAs are a dynastic tax sheltering wealth strategy that will last for untold generations, and what better way to form it but with a little bit of arbitrage.

For those who like hedging arbitrage strategies, here is one for you! Under the new Roth IRA conversion rules there is a special tax incentive for 2010 conversions (ability to equally spread the taxable income on conversion over the following two tax years); and, most importantly, should it appear as if the investment will not succeed, a "fail-safe hedge" provision allows the investor to completely unravel the conversion, at any time, before the tax filing deadline. Under this provision, the earlier transaction can be either abandoned outright or it can be abandoned, reinstated and re-priced 30 days later at a lower valuation and, therefore, a lower tax conversion costs. This wealth accumulation tactic, which can be further enhanced with a Roth Segregation Strategy, lasts no longer than the IRA/Roth IRA conversion period is open. Only as a result of the Great Recession and only in the United States of America!

While a formal valuation by an independent party is not specifically required within the new provisions, the valuation rulings within the IRS Code and the possible inconsistency between GAAP/IRS valuation methodologies cannot be ignored and, therefore, I recommend that the Roth conversion be made with a tax based securities' valuation in mind. A well thought out valuation performed by a properly qualified and independent valuator who specializes in complying with IRS security valuations is a conversion cost worth its foundational bearings.



Can I buy gold and silver in my IRA?

Yes, but you'll need to establish a self-directed IRA with a trustee/custodian who has experience with precious metals and is able to take physical possession of the assets. The company you purchase the metals from will generally have a relationship with a trustee/custodian who can set up a precious metals IRA for you.

Under IRS rules, holding certain collectibles, including metals, gems, or coins, in your IRA can result in a prohibited transaction. That doesn't mean you can't do it. But if you do, there can be serious tax consequences--the value of the collectible will be treated as a distribution to you, and will be subject to income tax and a 10% penalty (unless you're 59½ or another exception applies).

However, certain precious metals are specifically excluded from the definition of "collectible." The following are currently permitted as IRA investments:

- American Eagle gold, silver, and platinum bullion coins
- Coins issued by any state

Also allowed is any gold, silver, platinum, or palladium bullion, in coin form or otherwise, that meets certain purity requirements (for example, gold coins and bars must be at least 99.5% pure). Currently this includes:

- Canadian gold, silver, and platinum Maple Leaf coins
- Australian Philharmonic, Kangaroo/Nuggets, Kookaburras, and Koala coins
- Mexican Silver Libertads
- Isle of Man Noble platinum coins
- Gold, silver, platinum, and palladium bars and rounds of specific purity

Of course, you can also buy mining stocks, as well as gold and silver ETFs, in your IRA. For some, this is a more convenient way of adding this asset class to an IRA portfolio.

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Frequently asked questions about 2010 Roth IRA conversions

1. How does the special deferral rule for 2010 conversions work? I've heard that I calculate the conversion tax in 2010, but can pay half in 2011 and half in 2012.

No, this is a common misconception. If you make a conversion in 2010, you will calculate the amount of taxable income in 2010. But then you have a choice: you can either report all of the taxable income on your 2010 tax return, or instead report half of the income on your 2011 return and half on your 2012 return. So, your tax liability will depend on your marginal tax rates in 2010, 2011, and 2012. (Note that tax rates will increase in 2011 if the Bush tax cuts are allowed to expire.)

2. Does the special deferral rule for 2010 apply to distributions I roll over from my 401(k) plan to a Roth IRA in 2010?

Yes. If you receive a distribution of non-Roth funds from your 401(k) plan in 2010 and roll those funds into a Roth IRA, the taxation is similar to a conversion of a traditional IRA to a Roth IRA. You can report all of the resulting income on your 2010 tax return, or half on your 2011 return and half on your 2012 return.

3. Is it true that anyone can make annual contributions to a Roth IRA beginning in 2010, regardless of how much they earn?

No. You can contribute to a Roth IRA only if your income is within prescribed limits. These limits have not been repealed. What has been repealed are the income limits that used to apply to Roth conversions, beginning in 2010. But even if you can't contribute to a Roth IRA directly in 2010 because of the income limits, there's an easy workaround: you can make your annual contribution first to a traditional IRA (virtually anyone under age 70½ can make nondeductible contributions to a traditional IRA), and then convert that IRA to a Roth. Remember, though, that when you calculate the taxable amount due as a result of the conversion, you need to aggregate all of your traditional IRAs. See IRS Form 8606 for additional details.

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