newWealth advisors

December 2010

IN THIS ISSUE:

Introducing the User Friendly Mutual Fund Prospectus 1

First Milestones Mark Need for Financial Advice 2

Fixed Annuities vs. CDs: Is One Better Than the Other?.3

Ask the Experts 4

Introducing the User Friendly Mutual Fund Prospectus

When you're contemplating the purchase of a mutual fund, some of the factors you'll need to consider carefully before buying are its investment objectives, risks, costs, and expenses. Information about all of these can be found in the prospectus available from the fund. But traditional fund prospectuses can be too much of a good thing – lengthy documents with a lot of legal language that can make it difficult to find what you're looking for.

However, you now have a new option for comparing funds more efficiently. Over the last year or so, fund companies have been implementing new Securities and Exchange Commission regulations that are intended to ensure that investors can get key information in a more efficient, user-friendly format.

Shrinking the prospectus

Instead of mailing out a lengthy prospectus, fund companies may now choose to supply investors with a three- to four-page summary prospectus as long as the full prospectus is available electronically and includes the summary prospectus information as a section of the full prospectus. The summary prospectus must provide the following information in this precise order, which should make it easier to compare mutual funds.

Investment objectives and goals. This specifies the type of fund, such as a bond fund or balanced fund. It also indicates how the fund will try to earn a return – for example, by increasing the value of its assets (growth), providing periodic income, preserving capital, or some combination.

Costs, including a table of fees as well as a hypothetical example demonstrating the impact of those fees. The SEC specifically notes that it gave cost information prominent placement to encourage investors to pay attention to and compare costs. For funds that offer breakpoint discounts – in other words, they reduce their sales charge percentage if you invest a certain amount or buy more than a specified number of shares – the minimum breakpoint must be listed in this section, and the summary must tell investors where to find additional information.

This section also discloses a fund's portfolio turnover rate and gives a brief explanation of how it affects the fund's transaction costs and performance, as well as the potential tax implications of a high turnover rate if the fund is held in a taxable account. Finally, if a fund lists any fee waivers or expense reimbursements that would affect fund expenses, it must show how long they are expected to last in the future.

The fund's investment strategies, risks, and performance. This section typically includes the type of securities in which the fund invests and the risks associated with those securities. It also must disclose the risks associated with the fund's strategies. This information includes a bar chart and table showing the variability of the fund's returns, its past performance, and how that compares to a relevant index. It also may include information about where updated performance information can be found online. However, a list of a fund's top 10 holdings is no longer required as part of the summary information.

The fund's management. The summary must identify its investment advisors and must list the name, title, and length of service of the portfolio manager(s) responsible for the fund's day-to-day activity. The manager may be an individual or committee who typically is part of the investment advisory firm.

This section also includes a brief discussion of procedures for buying and selling fund shares, and any relevant tax information. A fund also must disclose whether it intends to distribute to its investors capital gains, ordinary income, or tax-exempt income.

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.

HAPPY HOLIDAYS!

Any compensation for a financial intermediary. A fund sold through a third-party financial institution, such as a bank or broker-dealer, must now disclose that it may compensate that financial intermediary, and that the compensation could influence the intermediary. The required language also suggests that you obtain additional information from the intermediary's representative or its website.

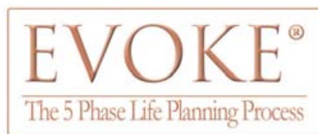
Exchange-traded funds

Prospectuses for exchange-traded funds (ETFs) also are covered by the new provisions, with some exceptions. For example, since ETF shares aren't redeemed directly from the fund, the provision about how to redeem shares doesn't apply for individual investors. However, an ETF prospectus must state the aggregate number of shares it will issue.

An ETF's prospectus must disclose that shareholders may pay more than the NAV and sell at less than NAV because ETFs are traded at market prices. ETFs also must disclose the number of trading days in the last calendar year, and each quarter since that year, on which its market price was higher and lower than its NAV, though it may provide this information online.

The full prospectus isn't going away

A full prospectus, which must be available from the fund's website, includes not only the same information as the summary but a great deal more. For example, it may include a discussion of how the fund's shares are valued, additional information on buying and selling fund shares, and greater detail on financial highlights. The full prospectus also is available on paper by request. New Wealth Advisors can obtain the full copy for you and assist with your review of the prospectus.



First Milestones Mark Need for Financial Advice

If you're just starting out, you might not give much thought to working with a financial professional. You may associate the process with retirement – a retirement that seems so far off that more immediate concerns take precedence. The fact is, though, a financial professional can prove to be a valuable resource to those just starting out. And, while there's never a bad time to seek professional advice, early life-changing events make it especially important to take stock of your financial situation.

Starting a career

It may seem counterintuitive – when you're starting out, it's often more about future potential and possibilities than focusing on the present. But this is actually the perfect time to begin building a relationship with a financial professional. It's also the perfect time to establish good financial habits, like building an adequate cash reserve, starting to save on a consistent basis, and establishing a good credit history. You may need help implementing a spending plan (aka "budget") that will help you to meet current financial needs and still enable you to make progress toward your future goals.

It's not all about the future, though. A financial professional can help you get the most out of your paycheck by working with you to maximize the value of tax-advantaged benefits offered by your employer, including employer-provided health coverage or a qualified retirement plan. In addition, you may need help with issues as common as paying back student loans, or as complicated as understanding employer stock options.

Getting married

You know you need financial help when key words used to solemnize the occasion include "…for richer or poorer…" There's the immediate financial aspects of a wedding (paying for everything), but – more importantly – there's the long-term financial challenges that come when two individuals combine their finances. Like the ghosts of boyfriends and girlfriends past, you each bring your own financial history, attitudes, and habits (both good and bad) to the union.

With each life milestone, a financial professional can help you develop a clear picture of your current financial situation, work with you to articulate and prioritize your financial goals and timelines, and recommend strategies and products that are appropriate for your objectives.

A financial professional can help you define your goals as a couple. In many cases, this may warrant the guidance of a Registered Life Planner (RLP®). You'll want to come up with a joint spending plan to help you achieve these goals, and decide on the mechanics of day-to-day money management. For example, will you combine your bank accounts or keep them separate? In cases where you and your spouse aren't on the same page, a third party can listen to all concerns, identify underlying issues, and help you find common ground. A professional can also work with you to make sure that you're making the most efficient use of employer benefits, including health insurance and qualified retirement plans, that you have adequate life insurance coverage, and that the investments you choose are appropriate for your goals, time frames, and risk tolerance.

Beginning a family

The period of time following the birth of a child is both exciting and stressful. It's time to completely reevaluate your financial situation, starting with your goals. For example, in addition to saving for your own retirement, it's time to start thinking about saving for your child's college education. Your existing spending plan is likely to be the victim of suddenly decreased income if there's to be a stay-at-home spouse or a significant new expenditure like child care. If nothing else, you need to account for the additional ongoing expenses that come with parenthood (e.g., baby formula, food, diapers, clothing).

With children in the equation, having adequate health insurance, life insurance, and disability income insurance takes on new significance, and you may want to work with someone to evaluate your needs, obtain appropriate coverage, and make sure your beneficiary designations reflect your wishes. It's also time to establish an appropriate estate plan – including a will, health-care proxy, and durable power of attorney – or to update an existing estate plan. A financial professional can help walk you through some of the issues involved, and can help you find an attorney if you don't have one already.

Need for advice grows over time

If you're like most people, your financial needs will grow more complex over time. As that happens, your need for financial advice will increase as well. By starting early, you're able to build on a solid financial foundation. With each life milestone, a financial professional can help you develop a clear picture of your current financial situation, work with you to articulate and prioritize your financial goals and timelines, and recommend strategies and products that are appropriate for your objectives.

The Certified Financial Planners (CFP®) at New Wealth Advisors can assist as you come upon these and other milestones.

Fixed Annuities vs. CDs: Is One Better Than the Other?

For most people, the answer to this question is *it depends*. While some features are similar, fixed annuities and bank certificates of deposit (CDs) also have characteristics that differ. What works for you depends on which features best fit your financial situation and investment objectives.

Are you looking for safety?

Both CDs and fixed deferred annuities are generally considered "low-risk" investments compared to other investment options. CDs are sold by banks; fixed annuities are issued by insurance companies. In most instances, CDs are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per account. Fixed annuities are not insured by the federal government, but are backed by the financial strength of the insurance company that issues the annuity. Of course, annuity guarantees are subject to the claims-paying ability of the issuing company, so when considering a fixed annuity, make sure the issuing company is financially sound. You can get an idea of the financial strength of a company by referring to an independent rating company such as Moody's, A.M. Best, or Standard & Poor's, which evaluate the financial strength of insurance companies and publish ratings based on their assessments.

How long is your investment horizon?

CDs are often used for short-term accumulation. CDs are issued in a variety of maturity periods, from as short as one month to three years or longer. On the other hand, fixed annuities are better suited for long-term accumulation. Most fixed annuities have maturity periods of five years or longer, although some fixed annuities have maturity periods as short as two years.

In any case, most CDs and fixed annuities assess a penalty for taking money out of your account prior to the maturity date. Some CDs allow you to withdraw interest as it's earned. However, if you want to withdraw principal, you'll likely be assessed an early withdrawal penalty. Likewise, many fixed annuities allow you to receive earned interest, and some annuities even allow a limited penalty-free withdrawal of up to 10% of the account value annually. But annuity withdrawals exceeding any penalty-free amount will also be subject to a withdrawal or surrender charge.

What type of return do you want?

Both CDs and fixed annuities credit interest to your account. The rate of interest is often based, at least in part, on the maturity period of the vehicle: the longer the investment period, the higher the interest rate likely to be offered. CDs generally pay a fixed interest rate for the entire term. The interest rate paid by a fixed annuity may change annually, subject to a minimum interest rate that lasts for the entire term. There are some fixed annuities that pay a fixed rate of interest for a fixed period of time, usually to maturity. While the interest rates of CDs and fixed annuities with similar maturity periods are often similar, since most fixed annuities have longer maturity periods than CDs, the interest rate offered may be a little higher than a CD with a shorter maturity term. It's also worth noting that fixed annuity companies guarantee a minimum interest rate for the term of the annuity, and sometimes, may guarantee a higher interest rate for a certain period of time.

Are taxes an issue?

If income taxes are a concern, be aware that the interest you earn on your CD presuming it's not held within an IRA is taxable in the year it's earned, even if you don't take the money. Conversely, the interest earned in a fixed annuity is not subject to income tax until you actually take the money out. With a fixed annuity, you have a little more control over when you'll pay taxes on your interest earnings. Also, interest earnings from CDs must be included as income when calculating whether a portion of your Social Security benefits will be subject to income tax. However, interest earned within a fixed deferred annuity (so long as it's not withdrawn) is not included in this calculation.

> While some features are similar, fixed annuities and bank certificates of deposit (CDs) also have characteristics that differ. Fixed annuities are not FDIC insured, are not issued by a bank or government agency, and are not a deposit.

Withdrawing money at maturity

When your CD matures, you're able to take the principal and any interest earnings out in a lump sum, or you can usually renew the CD for the same or a different term, and often at a different interest rate. You can do the same thing with money from a deferred annuity. You'll be taxed on the interest earnings at that time, and, if you're not at least age 59½, you may also face a 10% tax penalty on earnings as well, unless an exception applies. However, a deferred annuity provides you with the option to convert your account to a stream of payments that can last for your entire life. Known as annuitization, this gives you the option to receive periodic payments (e.g., monthly, quarterly, or annually) from your annuity for a fixed period of time, such as ten years, or for the rest of your life.

The Certified Financial Planners at New Wealth Advisors can help determine if either strategy is appropriate for you.

Can I roll over my traditional 401(k) plan distribution to a Roth IRA?

In general, yes, but there are some important exceptions. You cannot roll over required minimum distributions (RMDs). You also cannot roll over hardship distributions from your 401(k) plan, or certain periodic payments you receive from the plan. Also, special rules apply if you inherit a 401(k) plan account or IRA. Most other distributions are eligible for rollover.

A rollover of regular 401(k) assets to a Roth IRA is similar to a conversion of a traditional IRA to a Roth IRA (and it's often referred to as a conversion). You'll need to pay taxes on the amount you roll over to the Roth IRA, except to the extent your distribution includes your own after-tax contributions (you receive those back tax free). But a special rule applies to rollovers in 2010 only – you can elect either to pay all of the conversion taxes in 2010, or instead include half of the resulting income from the conversion on your 2011 federal tax return, and the other half on your 2012 tax return.

Your rollover can be either direct (the 401(k) plan transfers the funds directly to your Roth IRA for you) or indirect (the plan distributes the funds to you, and then you roll the funds over to the IRA within 60 days). A direct rollover is almost always the best way to transfer the funds. If you choose to make an indirect rollover, you run the risk of missing the 60-day deadline. More importantly, the plan will be required to withhold 20% of the taxable portion of your distribution for federal income taxes. If you want to roll over the full amount of your distribution, you'll need to come up with other funds to make up for the 20% that was withheld. You'll get credit for those withheld funds when you file your income tax return.

Qualified distributions from your Roth IRA will be tax free. To be qualified, your distribution must satisfy a five-year holding period and must be made after you reach age 59½, become disabled, or have qualifying first-time homebuyer expenses (up to $10,000 lifetime). The five-year holding period begins on January 1 of the year you first opened any Roth IRA either by a regular contribution, rollover, or conversion.

Can I roll over my Roth 401(k) plan distribution to a Roth IRA?

Yes. You can roll your Roth 401(k) plan distribution over to a Roth IRA. Your rollover can be direct (the plan transfers the assets to the Roth IRA on your behalf) or indirect (you receive the distribution and then roll it over to the Roth IRA yourself within 60 days). Your rollover will be tax free regardless of whether your distribution from the Roth 401(k) plan is qualified or nonqualified.

But whether your Roth 401(k) plan distribution is qualified or nonqualified is important for determining the taxation of future distributions from the Roth IRA. A distribution from a Roth 401(k) plan is qualified if you satisfy a five-year holding period and the distribution is made after you attain age 59½, become disabled, or have qualifying first-time homebuyer expenses (up to $10,000 lifetime). The five-year holding period begins on January 1 of the year you first started participating in that particular employer's Roth 401(k) plan.

If you receive a qualified distribution from your Roth 401(k) plan and roll it over to your Roth IRA, the entire amount rolled over is treated as a nontaxable contribution to the Roth IRA. You can withdraw this amount tax free from the Roth IRA at any time. Only additional earnings will be subject to the Roth IRA's five-year holding period.

But if you receive a nonqualified distribution from your Roth 401(k) account and roll it over to a Roth IRA, only an amount equal to your contributions to the Roth 401(k) plan, not the investment earnings, are treated as a nontaxable contribution to the Roth IRA. The investment earnings rolled over, along with any additional investment earnings, will be subject to the Roth IRA's five-year holding period.

IRS regulations provide that separate five-year holding periods apply to Roth 401(k) accounts and Roth IRAs. That is, you don't get to carry over your Roth 401(k) holding period to your Roth IRA. Your Roth IRA five-year holding period begins on January 1 of the year you first establish any Roth either by regular contribution, rollover, or conversion. Special rules apply to inherited Roth IRAs.

For more information or to discuss the content of this newsletter, please contact:

Jeffrey R. Arsenault, CPA/PFS, MST, CFP®, RLP®
Partner and Senior Wealth Advisor
(978) 557-5395
jarsenault@newwealthadvisors.net

New Wealth Advisors, LLC
1 Highwood Office Park
Tewksbury, MA 01876
www.newwealthadvisors.net

This newsletter contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

New Wealth Advisors, LLC ("New Wealth Advisors") is an SEC registered investment adviser with its principal place of business in the State of Massachusetts. New Wealth Advisors and its representatives are in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which New Wealth Advisors maintains clients. New Wealth Advisors may only transact business in those states in which it is notice filed or qualifies for an exemption or exclusion from notice filing requirements. Any subsequent, direct communication by New Wealth Advisors with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides.